

Docket:	:	<u>A.06-07-024</u>
Exhibit Number	:	_____
Commissioner	:	<u>John Bohn</u>
Admin. Law Judge	:	<u>Christine Walwyn</u>
DRA Project Mgr.	:	<u>Yoke Chan</u>



**DIVISION OF RATEPAYER ADVOCATES  
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**REPORT ON THE  
RESULTS OF OPERATIONS  
IN WILLOWS DISTRICT  
OF  
CALIFORNIA WATER SERVICE COMPANY  
Test Year 2007-2008 and  
Escalation Years 2008-2009 and 2009-2010  
Application 06-07-024**

For authority to increase water rates located in its  
Willows district serving Willows  
and vicinity, Glenn County.

San Francisco, California  
December 1, 2006

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1 **MEMORANDUM**

2

3 The Division of Ratepayer Advocates (“DRA”) of the California Public  
4 Utilities Commission (“Commission”) prepared this report in the California Water  
5 Service Company’s (“CWS”) rate case proceeding A.06-07-024. In this docket,  
6 the Applicant requests an order for authorization to increase rates charged for  
7 water service by \$ 530,700 or 50.17% in fiscal year 2007-2008; by \$201,600 or  
8 12.69% in fiscal year 2008-2009; and by \$201,600 or 11.26% in fiscal year 2009-  
9 2010 in its Willows District service area. DRA presents its analysis and  
10 recommendations associated with the Applicant’s request.

11 Yoke Chan serves as DRA’s project coordinator in this review and is  
12 responsible for the overall coordination in the preparation of this report. DRA’s  
13 witnesses’ prepared qualifications and testimony are contained in Appendix A of  
14 this report.

15 DRA’s legal counsel for this case is Selina Shek.

16 DRA’s recommendation on Cost of Capital is discussed under separate  
17 cover.

## EXECUTIVE SUMMARY

CWS requests an increase of 50.17% in Test Year 2007-08 and 12.69% in Escalation Year 2008-09, whereas DRA recommends an increase of 14.8% in Test Year 2007-08 and inflationary increases for the Escalation Years.

### **Key Recommendations**

DRA's recommendations are based on higher sales for residential customers (Chapter 2), lower estimates of Operation and Maintenance expenses (Chapter 3), lower expenses of Administrative and General expenses (Chapter 4), lower Plant additions (Chapter 7), a lower Cost of Capital of 9.54% and lower Rate of Return on Rate Base of 8.30% for 2007-2008 and 2008-2009 (Chapters 1 and 13).

In addition, DRA recommends the following treatment to CWS' Special Requests as discussed further in Chapter 12:

#### **(a) Water Quality**

CWS requests that the Commission make a finding that the district water quality meets all applicable state and federal drinking water standards and the provisions of General Order 103. DRA has reviewed CWS' filings and agrees that CWS has complied with applicable water quality standards during the most recent three-year period.

#### **(b) Water Revenue Adjustment Mechanism**

CWS requests a revenue adjustment mechanism that decouples sales and revenues. This was excluded in the scope of this proceeding.

1                   (c) Filing an offset rate increase in 2008 to reflect the General  
2 Office allocation adopted in CWS' 2007 GRC

3           CWS requests authorization to file an offset rate increase in 2008 to reflect  
4 the general office allocation adopted in its 2007 general rate case filing. This was  
5 excluded in the scope of this proceeding.

6                   (d) An early ex parte order to update Rule 15

7           CWS requests an early ex parte order to update Rule 15 to increase the  
8 water supply special facilities fee in this district. DRA recommends the lot fee be  
9 increased from CWS' proposed \$1,000 to \$2,320.

10                   (e) An order to allow to capitalize certain well repair cost and  
11 amortize those improvements over the life of the well

12           CWS requests authorization to capitalize well repair cost and amortize  
13 those improvements over the life of the well. DRA recommended that CWS  
14 should record the well refurbishment and well treatment as maintenance expenses.

15                   (f) GO Synergy Memorandum Account

16           CWS requests to amortize the General Office synergies memorandum  
17 account adopted in D. 03-09-021 and the merger savings established in D. 04-04-  
18 041. DRA reviews and agrees with CWS' request.

19                   (g) To amortize all balancing and memorandum accounts

20           CWS requests authority to amortize all balancing and memorandum  
21 account balances in this district. DRA agrees that all balancing and memorandum  
22 accounts should be amortized.

**(h) List of DRA Witnesses and Respective Chapters**

Chapter Number	Description	Witness
-	Executive Summary	
1	Overview and Policy Introduction and Summary of Earnings	Yoke Chan
2	Water Consumption and Operating Revenues	Toni Canova
3	Operation and Maintenance Expenses	Vibert Greene
4	Administrative and General Expenses	Cleason Willis
5	Taxes Other Than Income	Cleason Willis
6	Income Taxes	Vibert Greene
7	Plant in Service	Joyce Steingass
8	Depreciation Expenses and Reserve	Joyce Steingass
9	Rate Base & Net to Gross Multiplier	Joyce Steingass
10	Customer Service	Katie Liu
11	Rate Design	Tatiana Olea
12	Special Requests	Steingass, Chan, Thompson
13	Escalation Year Increases	Yoke Chan

1                   **CHAPTER 1: OVERVIEW AND POLICY**

2           **A. INTRODUCTION**

3           This report sets forth the analysis and recommendations of DRA pertaining  
4 to A. 06-07-024 CWS' general rate increase request for Test Year 2007-2008 and  
5 Escalation Years 2008-2009 and 2009-2010.

6           **B. SUMMARY OF RECOMMENDATIONS**

7           Tables 1-1 through 1-3 of the Summary of Earnings compare the results of  
8 operations for the Test Year 2007-2008 including revenues, expenses, taxes and  
9 ratebase.

10          **C. DISCUSSION**

11          The total revenues requested by CWS are as follows:

12           Year                   Amount of Increase           Percent

13           2007-2008           \$ 530,700                   50.17%

14           2008-2009           \$ 201,600                   12.69%

15           2009-2010           \$ 201,600                   11.26%

16          CWS estimates that its proposed rates in the application will produce  
17 revenues providing the following returns:

18           Year                   Return on Rate Base           Return on Equity

19           2007-2008           9.89%                       12.37%

20           2008-2009           9.89%                       12.37%

21           2009-2010           9.89%                       12.37%



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TABLE 1-1

CALIFORNIA WATER SERVICE COMPANY  
WILLOWS DISTRICT

SUMMARY OF EARNINGS

TEST YEAR            2007 - 2008

(AT PRESENT RATES)

Item	DRA	CWS	CWS	
	Estimate	Estimate	exceeds DRA	
			Amount	%
(Thousands of \$)				
Operating revenues	1,070.2	1,057.4	(12.8)	-1.2%
Operating expenses:				
Operation & Maintenance	417.3	515.4	98.1	23.5%
Administrative & General	56.7	56.8	0.1	0.2%
G. O. Prorated Expense	231.4	244.3	12.9	5.6%
Dep'n & Amortization	125.2	136.1	10.9	8.7%
Taxes other than income	61.1	64.4	3.3	5.4%
State Corp. Franchise Tax	6.3	(12.3)	(18.6)	-293.7%
Federal Income Tax	60.4	(10.6)	(71.0)	-117.6%
Total operating exp.	958.4	994.1	35.8	3.7%
Net operating revenue	111.8	63.3	(48.6)	-43.4%
Rate base	2,403.7	3,625.9	1,222.2	50.8%
Return on rate base	4.65%	1.75%	-2.90%	-62.3%

TABLE 1-2

CALIFORNIA WATER SERVICE COMPANY  
WILLOWS DISTRICT

SUMMARY OF EARNINGS

TEST YEAR            2007 - 2008

(AT UTILITY PROPOSED RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Operating revenues	1,603.6	1,588.6	(15.0)	-0.9%
Operating expenses:				
Operation & Maintenance	418.4	516.6	98.1	23.5%
Administrative & General	56.7	56.8	0.1	0.2%
G. O. Prorated Expense	231.4	244.3	12.9	5.6%
Dep'n & Amortization	125.2	136.1	10.9	8.7%
Taxes other than income	70.0	73.3	3.3	4.7%
State Corp. Franchise Tax	52.6	33.8	(18.8)	-35.7%
Federal Income Tax	236.9	169.1	(67.8)	-28.6%
Total operating exp.	1,191.2	1,230.0	38.8	3.3%
Net operating revenue	412.4	358.6	(53.8)	-13.0%
Rate base	2,403.7	3,625.9	1,222.2	50.8%
Return on rate base	17.16%	9.89%	-7.27%	-42.4%

TABLE 1-3

CALIFORNIA WATER SERVICE COMPANY  
WILLOWS DISTRICT

SUMMARY OF EARNINGS

TEST YEAR            2007 - 2008

(DRA ESTIMATES)

Item	DRA Est. @ Present Rates	@ Rates Proposed by DRA	Proposed Exceeds Present Amount	%
(Thousands of \$)				
Operating revenues	1,070.2	1,226.8	156.6	14.6%
Operating expenses:				
Operation & Maintenance	417.3	417.6	0.3	0.1%
Administrative & General	56.7	56.7	0.0	0.0%
G. O. Prorated Expense	231.4	231.4	0.0	0.0%
Dep'n & Amortization	125.2	125.2	0.0	0.0%
Taxes other than income	61.1	61.1	0.0	0.0%
State Corp. Franchise Tax	6.3	20.1	13.8	217.9%
Federal Income Tax	60.4	115.0	54.6	90.5%
Total operating exp.	958.4	1,027.2	68.8	7.2%
Net operating revenue	111.8	199.6	87.8	78.5%
Rate base	2,403.7	2,403.7	0.0	0.0%
Return on rate base	4.65%	8.30%	3.65%	78.5%

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## CHAPTER 2: WATER CONSUMPTION AND OPERATING REVENUES

### A. INTRODUCTION

This Chapter presents DRA's analysis and recommendations on water consumption and operating revenues for CWS' Willows District. DRA analyzed CWS' report (Report on the Results of Operations and Prepared Testimony for the Willows District), supporting work papers, methods of estimating water consumption and operating revenue, data responses, and supplementary data before formulating its own estimates. Table 2-A presents a summary of estimates developed by DRA and CWS.

**Table 2-A Summary of Projected Consumption and Revenues**

	<u>DRA</u>		<u>CWS</u>		<u>CWS Exceeds DRA</u>	
	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
<b>Total Operating Revenues (\$000)</b>						
Present Rates	1,070.2	1,071.2	1,057.4	1,058.3	(12.8)	(12.9)
Utility Proposed Rates	1,603.6	1,806.6	1,588.9	1,789.8	(14.7)	(16.8)
<b>Average Number of Customers</b>						
Metered	1504	1520	1504	1520	0.0	0.0
Flat & Fire Protection	862	858	862	858	0.0	0.0
<b>Water Sales By Customer Class (Kccf/yr)</b>						
Residential	252.4	255.4	236.5	239.4	(15.9)	(16.0)
Business	132.2	133.2	132.2	133.2	0.0	0.0
Multi-Family	43.4	43.4	43.4	43.4	0.0	0.0
Industrial	0.0	0.0	0.0	0.0	0.0	0.0
Public Authority	56.4	56.4	56.4	56.4	0.0	0.0
Other	1.1	1.1	1.1	1.1	0.0	0.0
Commercial Flat	314.2	314.2	314.2	314.2	0.0	0.0
<b>Water Sales Per Average Customer (CCF/Connection/Year)</b>						
Residential	220.4	220.4	206.6	206.6	(13.9)	(13.9)
Business	459.2	459.2	459.2	459.2	0.0	0.0
Multi-Family	1970.8	1970.8	1970.8	1970.8	0.0	0.0
Industrial	0.0	0.0	0.0	0.0	0.0	0.0
Public Authority	1199.0	1199.0	1199.0	1199.0	0.0	0.0
Other	526.0	526.0	526.0	526.0	0.0	0.0

## **B. SUMMARY OF RECOMMENDATIONS**

### **1) Number of Customers**

DRA has reviewed CWS' estimating methodology for determining the number of customers in the Test Year. CWS used a five-year average of annual customer growth to estimate the incremental number of customers unless there are mitigating outside factors. DRA accepts CWS' estimates for the number of customers in each of the six classes of customers for the Test Year.

### **2) Operating Revenues**

DRA accepts CWS' revenue forecasting methodology. A detailed comparison for the Test Year is shown in Tables 2-6, and 2-7.

### **3) Consumption**

CWS used 10 years of monthly temperature and rainfall data to develop the regression models and forecasts. CWS adjusted the data to remove the first four inches of rain recorded and to account for the billing lag associated with the temperature data. Removing the first four inches of rainfall is consistent with CPUC practice. This adjustment is made to reflect the fact that, historically, rainfall above 4 inches during a month does not impact consumption. CWS' consultant used Econometric Views (E-Views) to specify the regression models and develop the forecasts. Using E-Views software to estimate consumption per customer is now standard practice and is consistent with the "New Committee Method" recommended in D.04-06-018, the General Rate Case Plan for Class A Water Companies. In instances where the regression model yielded unsatisfactory statistics, for example, in the Residential and Other categories, a different estimating methodology was selected. Unsatisfactory statistics are indicated by a low R-squared, a Durbin-Watson statistic value not close to 2.00, and a low variable coefficient t-statistic.

1 While preparing its estimates, DRA reviewed and confirmed CWS' models  
2 and forecasts. DRA accepts CWS' general forecasting methodology. DRA's and  
3 CWS' estimates are generally derived from the average-use-per connection  
4 forecasted for 2006 and then incorporated customer growth in 2007 and 2008.  
5 These forecasts are then averaged to derive the fiscal Test Year estimates for  
6 2007-08, and the escalation fiscal year 2008-09. Detailed discussions of the  
7 forecasts are below.

#### 8 **4) Unaccounted For Water ("UFW")**

9 CWS used a five-year average unaccounted for water percentage of 8.00%.  
10 DRA agrees with this five-year average estimate and recommends the  
11 Commission adopt the 8.00 percentage because it is acceptable and reasonable.

### 12 **C. DISCUSSION**

#### 13 **1) Number of Customers**

14 DRA's and CWS' customer forecasts are shown in Table 2-A above and at  
15 the end of the Chapter in Tables 2-2 and 2-3.

#### 16 **2) Operating Revenues**

17 Revenues requested by CWS and recommended by DRA based on the  
18 present and proposed rates are shown above in Table 2-A, and at the end of the  
19 Chapter in Tables 2-6 and 2-7.

#### 20 **3) Consumption**

21 DRA reviewed CWS' forecasts and developed its forecasts utilizing the  
22 same set of historical data. DRA used an E-Views forecast where the statistics  
23 indicated good results (an R-squared close to 1.00, a Durbin-Watson statistic near  
24 2.00, and significant t-statistics) from using an E-Views forecast. In other

1 instances, DRA used an average of historical consumption similar to how CWS  
2 developed its forecast. DRA's and CWS' forecasts are shown in Table 2-A above  
3 and at the end of the Chapter in Table 2-1.

4 The basic forecast equation starts with a constant term, a temperature  
5 variable, a rain variable, and a time variable. Depending on the statistics generated  
6 by this simple model adjustments may be made to the model to provide a superior  
7 estimate. Some of the modifications may include substituting the individual  
8 monthly temperature variables, including an autoregressive term, or including a  
9 dummy variable. Specific forecasts are discussed below.

#### 10 (a) Residential

11 DRA used a different forecast method than CWS. CWS used E-Views to  
12 forecast 206.6 hundreds of cubic feet (Ccf) per customer. The E-Views equation  
13 included a constant term, twelve temperature variables (representing each month),  
14 a time variable, and an autoregressive term. After reviewing the results of the  
15 water sales E-Views model, DRA observed that the results were too low and did  
16 not fairly represent future water sales potential for the residential class. A five-  
17 year average calculation of historic consumption for metered sales per residential  
18 customer provides a better representation. DRA disagrees with CWS' E-Views  
19 forecasting method and recommends a five-year average consumption of 220.4  
20 Ccf. CWS did not give any explanation why they preferred the E-Views forecast  
21 in this district over the five-year average method which was used in all the other  
22 Districts in this GRC for the residential consumption forecast.

23 DRA calculates annual residential water consumption by multiplying the  
24 projected consumption per customer in CCF by the projected number of customers  
25 then dividing by one thousand. CWS' forecasted consumption of 206.6 Ccf per  
26 customer is used to calculate the total metered sales for 2006, 2007, and 2008. To  
27 estimate the 2007-08 fiscal Test Year sales, an average of the 2007 and 2008



1 estimates were used. CWS' end result is 236.5 thousand cubic feet (Kccf) per year  
2 for Fiscal Test Year 2007-08. DRA's calculation results in 252.4 (Kccf) total  
3 water sales for Fiscal Test Year 2007-08, as shown in Tables 2-4 and 2-5.

4 (b) Business

5 DRA used the same forecast equation as CWS. The E-Views equation  
6 included a constant term, twelve temperature variables (representing each month),  
7 a time variable, and an autoregressive term. The E-Views model returned statistics  
8 indicating good results (R-squared close to 1.00, a Durbin-Watson statistic value  
9 close to 2.00, and a high variable coefficient t-statistic). CWS used the resulting  
10 forecast of 459.2 Ccfs per connection per year which is multiplied by the average  
11 number of customers to derive the Total Metered Sales of 132.2 Kccf per year for  
12 Fiscal Test Year 2007-08. DRA agrees with these results and finds no need to  
13 change the forecasts.

14 (c) Multifamily

15 DRA used the same forecast equation as CWS. The E-Views model  
16 returned unsatisfactory statistics, therefore, sales for the last three recorded years  
17 (2003 to 2005) were used. DRA agrees with this method and concurs with CWS'  
18 forecast of 1,970.8 Ccfs per connection per year and the calculated Total Metered  
19 Sales of 43.4 Kccf per year for the Fiscal Test Year of 2007-08.

20 (d) Industrial

21 There are no industrial sales in this District.

22 (e) Public Authority

23 DRA used the same forecast method as CWS. CWS used the E-Views  
24 model to forecast sales for the public authority customer class. The E-Views

equation included a constant term, twelve temperature variables, a time variable, and an added autoregressive term. The result of 56.4 Kccf is the Total Sales for Fiscal 2007-08 Test Year for this customer class. To calculate the Ccf per connection per year, multiply the Kccf amount by one thousand then divide by the number of customers (47) to derive 1,199.0 Ccf per average customer per year. DRA finds this reasonable and concurs with CWS' forecast.

(f) Other

Here, a suitable forecast E-Views model was not available. There is no historical data before 2005, thus the 2005 actual amount of 1.1 Kccf was used as the forecast estimate. The Total Water Sales of 1.1 Kccf per year calculates to 526.0 Ccf per customer per year consumption ( $1.1 \times 1000 / 2$ ) for Fiscal Year 2007-08. DRA concurs with this forecast and recommends the Commission adopt this forecast.

**4) Unaccounted For Water ("UFW")**

There are flat rate customers in Willows District, so the actual amount of UFW can not be measured accurately. UFW includes leakage of water from the system prior to sale and water used for system flushing and maintenance. CWS estimated unaccounted for water at 8% based on a five-year average. DRA agrees with this 8% estimated UFW.

**5) Total Water Consumption and Supply**

Total water consumption is the sum of metered and un-metered sales and unaccounted for water. Willows District does have residential flat rate customers and a small amount of private and public fire protection un-metered customers. The total water supply is company owned wells. The total consumption and water supply levels for Test Year and Escalation Year are shown in Tables 2-4 and 2-5.

1        **D. CONCLUSION**

2            **1) Number of Customers**

3            DRA concurs with CWS' estimated number of customers for the Test  
4        Years in Tables 2-2 and 2-3.

5            **2) Operating Revenues**

6            DRA finds most of CWS' revenue forecast reasonable and recommends the  
7        Commission adopt the revenue forecasts shown in Tables 2-6 and 2-7. The only  
8        difference is the revenue estimate for residential customers since DRA used a  
9        higher consumption rate per customer.

10          **3) Consumption**

11          DRA finds CWS' forecasts of consumption reasonable with the exception  
12        in residential consumption per year and sales per residential class customer. DRA  
13        recommends the Commission adopt DRA's forecast numbers shown in Table 2-1.

14          **4) Unaccounted For Water**

15          DRA concurs with CWS' five-year average projection of 8% UFW, finding  
16        it reasonable and that it should be adopted.

TABLE 2-1

CALIFORNIA WATER SERVICE COMPANY  
WILLOWS DISTRICT  
WATER SALES PER AVERAGE CUSTOMER

TEST YEAR      2007 - 2008

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(CCF/CONN./YR)				
Residential	220.4	206.6	(13.9)	-6.7%
Business	459.2	459.2	0.0	0.0%
Multiple Family	1,970.8	1,970.8	0.0	0.0%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	1,199.0	1,199.0	0.0	0.0%
Other	526.0	526.0	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%

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TABLE 2-2  
CALIFORNIA WATER SERVICE COMPANY  
WILLOWS DISTRICT

AVERAGE NUMBER OF CUSTOMERS

TEST YEAR                      2007 - 2008

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
<u>Metered Connections</u>				
Residential	1,145	1,145	0	0.0%
Business	288	288	0	0.0%
Multiple Family	22	22	0	0.0%
Industrial	0	0	0	0.0%
Public Authority	47	47	0	0.0%
Other	2	2	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	1,504	1,504	0	0.0%
<u>Flat Rate Connections</u>				
Residential Flat	831	831	0	0.0%
Private Fire Protection	18	18	0	0.0%
Public Fire Protection	13	13	0	0.0%
Total flat rate connections	862	862	0	0.0%
<u>Total Active Connections</u>				
Include Fire Protection	2,366	2,366	0	0.0%
Exclude Fire Protection	2,335	2,335	0	0.0%

TABLE 2-3

CALIFORNIA WATER SERVICE COMPANY  
WILLOWS DISTRICT

AVERAGE NUMBER OF CUSTOMERS

ESCALATION YEAR                      2008 - 2009

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
<u>Metered Connections</u>				
Residential	1,159	1,159	0	0.0%
Business	290	290	0	0.0%
Multiple Family	22	22	0	0.0%
Industrial	0	0	0	0.0%
Public Authority	47	47	0	0.0%
Other	2	2	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	1,520	1,520	0	0.0%
<u>Flat Rate Connections</u>				
Residential Flat	826	826	0	0.0%
Private Fire Protection	18	18	0	0.0%
Public Fire Protection	14	14	0	0.0%
Total flat rate connections	858	858	0	0.0%
<u>Total Active Connections</u>				
Include Fire Protection	2,378	2,378	0	0.0%
Exclude Fire Protection	2,346	2,346	0	0.0%

TABLE 2-4

CALIFORNIA WATER SERVICE COMPANY  
WILLOWS DISTRICT

TOTAL SALES AND SUPPLY

TEST YEAR                      2007 - 2008

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(KCCF/YEAR)				
<u>Metered Sales</u>				
Residential	252.4	236.5	(15.9)	-6.3%
Business	132.2	132.2	0.0	0.0%
Multiple Family	43.4	43.4	0.0	0.0%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	56.4	56.4	0.0	0.0%
Other	1.1	1.1	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
<hr/>				
Total metered sales	485.4	469.5	(15.9)	-3.3%
<u>Flat Rate Sales</u>				
Commercial	314.2	314.2	0.0	0.0%
Unaccounted For Water 8.00%	69.5	68.2	(1.3)	-1.9%
<hr/>				
Total delivered	869.1	851.8	(17.3)	-2.0%
 <u>Supply</u>				
Company Wells	869.1	851.9	(17.2)	-2.0%
<hr/>				
Total potable waterproduction	869.1	851.9	(17.2)	-2.0%

TABLE 2-5

CALIFORNIA WATER SERVICE COMPANY  
WILLOWS DISTRICT

TOTAL SALES AND SUPPLY

ESCALATION YEAR                      2008 - 2009

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(KCCF/YEAR)				
<u>Metered Sales</u>				
Residential	255.4	239.4	(16.0)	-6.3%
Business	133.2	133.2	0.0	0.0%
Multiple Family	43.4	43.4	0.0	0.0%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	56.4	56.4	0.0	0.0%
Other	1.1	1.1	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
<hr/>				
Total metered sales	489.4	473.4	(16.0)	-3.3%
<u>Flat Rate Sales</u>				
Commercial	314.2	314.2	0.0	0.0%
Unaccounted For Water 8.0000%	69.9	68.5	(1.4)	-2.0%
<hr/>				
Total delivered	873.5	856.0	(17.5)	-2.0%
<u>Supply</u>				
Company Wells	873.5	856.1	(17.4)	-2.0%
<hr/>				
Total potable water production	873.5	856.1	(17.4)	-2.0%



TABLE 2-6

CALIFORNIA WATER SERVICE COMPANY  
WILLOWS DISTRICT

OPERATING REVENUES

TEST YEAR            2007 - 2008

(AT PRESENT RATES)

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
<u>Metered Revenues</u>				
Residential	377.3	364.5	(12.8)	-3.4%
Business	184.3	184.3	0.0	0.0%
Multiple Family	50.7	50.7	0.0	0.0%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	73.9	73.9	0.0	0.0%
Other	0.9	0.9	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
<hr/>				
Total General Metered	687.1	674.3	(12.8)	-1.9%
<u>Flat Rate Revenues</u>				
Residential Flat	366.6	366.6	0.0	0.0%
Private Fire Protection	6.9	6.9	0.0	0.0%
Public Fire Protection	3.8	3.8	0.0	0.0%
Other	0.7	0.7	0.0	0.0%
<hr/>				
Total Flat Rate	377.9	377.9	0.0	0.0%
Deferred Revenues	5.2	5.2	0.0	0.0%
Total revenues	1,070.2	1,057.4	(12.8)	-1.2%

TABLE 2-7

CALIFORNIA WATER SERVICE COMPANY  
WILLOWS DISTRICT

OPERATING REVENUES

TEST YEAR            2007 - 2008

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
<u>Metered Revenues</u>				
Residential	576.9	562.2	(14.7)	-2.5%
Business	277.2	277.2	0.0	0.0%
Multiple Family	71.7	71.7	0.0	0.0%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	108.9	108.9	0.0	0.0%
Other	1.0	1.0	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
<hr/>				
Total General Metered	1,035.7	1,021.0	(14.7)	-1.4%
<u>Flat Rate Revenues</u>				
Residential Flat	550.5	550.5	0.0	0.0%
Private Fire Protection	7.5	7.5	0.0	0.0%
Public Fire Protection	4.1	4.1	0.0	0.0%
Other	0.8	0.8	0.0	0.0%
<hr/>				
Total Flat Rate	562.7	562.7	0.0	0.0%
Deferred Revenues	5.2	5.2	0.0	0.0%
Total revenues	1,603.6	1,588.9	(14.7)	-0.9%

# 1 CHAPTER 3: OPERATIONS AND MAINTENANCE EXPENSES

## 2 A. INTRODUCTION

3 This Chapter presents DRA's analyses and recommendations for Operation  
4 and Maintenance (O&M) expenses in the Willows District of California Water  
5 Service Company (CWS). Tables 3-1 compared in detail DRA's and CWS' O&M  
6 estimates for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009. All  
7 DRA's estimates are in Nominal Dollars. A comparison of total expense estimates  
8 at present rates for these years are shown in Table 3-A:

9 Table 3-A  
10 California Water Service Company  
11 Comparison of Total Operation & Maintenance Expense Estimates  
12 At Present Rates  
13

DRA: Fiscal Year 2007-2008	CWS: Fiscal Year 2007-2008	DRA: Fiscal Year 2008-2009	CWS: Fiscal Year 2008-2009	Utility Exceeds DRA Fiscal 2007-2008	Utility Exceeds DRA Fiscal 2007-2008
\$417,300	\$515,400	\$429,800	\$529,000	\$98,100 23.5%	\$99,200 23.1%

14

15 DRA's analyses of CWS' estimates for the Fiscal Year 2007-2008 and the  
16 Fiscal Year 2008-2009 include the following analyses as listed below—[(1)  
17 through (6)]--of CWS' recorded historical expense trends (2000-2005) and CWS'  
18 estimates for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009; using  
19 estimates from Test Years 2006, 2007 and 2008.

- 20 (1) A 5-Year Regression Analysis (2001-2005)  
21 (2) A 3-Year Regression Analysis (2003-2005)  
22 (3) 5-Year Averages (2001-2005)  
23 (4) 3-Year Averages (2003-2005)

- 1 (5) Last Year Recorded Amounts as base Year 2005  
2 (6) Annualization of the Last 8-months of recorded data (January 2006-August  
3 2006).

4 DRA selected the methodology that best fits CWS' recorded historical  
5 expense trends (2000-2005) for its analysis and estimates for the Fiscal Year 2007-  
6 2008 and the Fiscal Year 2008-2009. All DRA estimates are in Nominal Dollars.

7 The inflation factors used by DRA are recommended by the Commission's  
8 Division of Ratepayers Advocates (DRA) Energy Cost of Service Branch (ECOS),  
9 which has traditionally handled inflation issues for the Commissions. These  
10 factors were provided in a Memorandum from ECOS dated Aug. 31, 2006. The  
11 Labor escalation factors are the Consumer Price Index for all Urban Consumers  
12 (CPI-U). The Non-Labor escalation factors are generated from a composite index  
13 of 10 Wholesale Price Indexes for material and supply expenses, and the CPI-U  
14 weighted 5% for services and consumer related items. The 60/40 factor is a  
15 composite index; derive from weighting 60 percent Non-Labor and 40 percent for  
16 the Compensation per Hour Index. These indices are derived from the monthly  
17 DRI-WEFA publication, "U.S. Economic Outlook." The above indices and  
18 weightings are in conformance with an agreement reached between the  
19 Commission's Water Division and the California Water Association under the new  
20 rate case plan adopted in D.04-06-018.

## 21 **B. SUMMARY OF RECOMMENDATIONS**

22 DRA conducted independent analyses of CWS' work papers and methods  
23 of estimating the Operating and Maintenance expenses for the Fiscal Year 2007-  
24 2008 and the Fiscal Year 2008-2009. With the exception of: Purchased power,  
25 payroll, purchased chemical, postage and conservation; CWS used a 5-year  
26 average of historical expenses adjusted for inflation for the Fiscal Year 2007-2008  
27 and the Fiscal Year 2008-2009 expenses.

1           DRA used alternative projection methods which were then compared with  
2 CWS projections and its historical operations. DRA projections are identified in  
3 Table 3-1 at the end of this Chapter. DRA estimated \$417,300 and \$429,800 for  
4 Fiscal Year 2007-2008 and Fiscal Year 2008-2009 expenses respectively. The  
5 methodologies used by DRA are discussed in the following sections. DRA  
6 recommends that the Commission adopt its O & M numbers as reasonable.

**Table 3-B: Escalation Factors**

Year	Compensation per hour Non-farm rate		Inflation Rates (%)				Composite Rates % 40/60 Split	
	Calendar Annual % Changes	Fiscal Annual % Changes	Calendar		Fiscal		Calendar	Fiscal
			Non- Labor	Labor	Non- Labor	Labor		
1997	3.6	4.5	0.6	--	0.3	--	1.8	2.0
1998	5.3	4.9	0.0	2.3	0.4	1.9	2.1	2.2
1999	4.4	5.7	0.7	1.5	2.1	1.9	2.2	3.5
2000	6.9	4.8	3.5	2.2	1.8	2.8	4.9	3.0
2001	2.7	2.8	0.0	3.4	0.0	3.1	1.1	1.1
2002	2.8	3.4	0.0	2.8	1.3	2.2	1.1	2.1
2003	4.0	4.3	2.5	1.6	4.2	2.0	3.1	4.2
2004	4.5	4.8	5.8	2.3	5.7	2.5	5.3	5.3
2005	5.1	4.4	5.5	2.7	5.7	3.1	5.3	5.2
2006	3.7	3.8	5.9	3.4	4.4	3.5	5.0	4.2
2007	3.9	3.9	2.8	3.6	1.8	3.1	3.2	2.6
2008	3.8	3.9	0.7	2.5	0.4	2.2	1.9	1.8
2009	4.0	4.1	0.1	1.8	0.1	1.8	1.7	1.7
2010	4.1	--	0.0	1.7	--	--	1.6	--

1

2 **C. DISCUSSION**

3 **1) PURCHASED WATER**

4 CWS: Willows does not record purchased water expense.

5 **2) PRODUCED WATER: GROUND WATER EXTRACTION**  
6 **CHARGES**

7 CWS: Willows Groundwater Extraction Charges are zero (\$0.0).

1           **3) REPLENISHMENT ASSESSMENT**

2           CWS: Willows Groundwater Replenishment Assessment is zero (\$0.0).

3           **4) PURCHASED POWER**

4           Purchased power is the cost of electricity needed to operate a district,  
5 including the power used in pumping and delivering water. The estimate of  
6 purchased power varies from year to year, and month to month based on  
7 differences in local demand, maintenance schedules, and other operational  
8 considerations such as the quality of water delivered. This calculation also takes  
9 into account the historical ratio of electricity used to the amount of water pumped.

10          CWS estimates of purchased power costs per production unit were based on  
11 usage patterns of each production component, using a model of power cost per  
12 kilowatt-hour at various levels of production. CWS model estimates costs per  
13 kilowatt-hour at current rates (Pacific Gas and Electric Company schedules  
14 effective May1, 2006) using the historical average of kilowatt-hours per unit of  
15 production and the last three years of recorded data (2003-2005). Because fixed  
16 components of the bill are spread over more units of production, the costs per  
17 kilowatt-hour generally decline with increasing uses. When the data (kilowatt-  
18 hour) used show a specific pattern, CWS uses a forecast methodology to predict  
19 estimated power cost from the estimated kilowatt-hour demand. If no specific  
20 patterns are observed, CWS uses an average such as a 5-year average.

21          For Willows, the last 3-years of data show a poor relationship between  
22 power consumption and average power cost; therefore CWS used the average unit  
23 power cost to forecast well power costs. The model average output is \$0.1507 per  
24 kilowatt-hour.

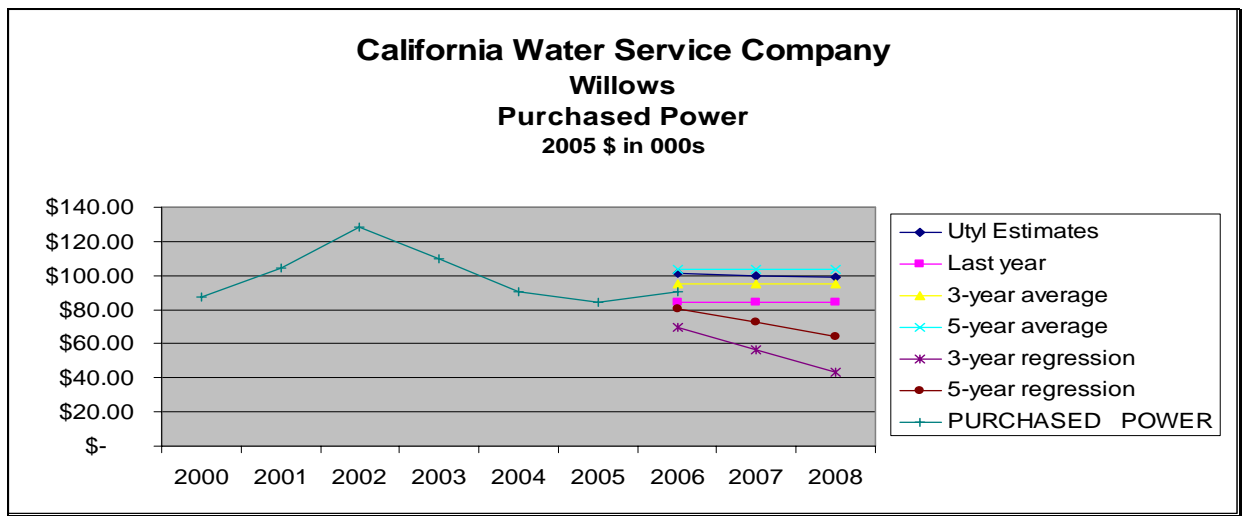
25          CWS estimated \$105,600 and \$106,200 for the Fiscal Year 2007-2008 and  
26 Fiscal Year 2008-2009 respectively.

DRA estimated \$92,100 and \$93,800 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA used the last year (2005) adjusted for inflation. Ref. Table 3-C. DRA would like to point out that the 2006 historical annualized estimate is \$90,580, which is more in line with DRA's estimates,

DRA ask that its estimates of \$92,100 and \$93,800 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be accepted

Table 3-C: Purchased Power

California Water Service Company									
Willows									
Purchased Power									
2005 \$ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utl Estimates							\$ 101.33	\$ 100.06	\$ 98.71
Last year							\$ 84.10	\$ 84.10	\$ 84.10
3-year average							\$ 94.83	\$ 94.83	\$ 94.83
5-year average							\$ 103.39	\$ 103.39	\$ 103.39
3-year regression							\$ 69.24	\$ 56.45	\$ 43.66
5-year regression							\$ 80.10	\$ 72.34	\$ 64.58
PURCHASED POWER	\$ 87.18	\$ 104.06	\$ 128.40	\$ 109.68	\$ 90.70	\$ 84.10	\$ 90.58		



## 5) PURCHASED CHEMICAL

CWS Purchased Chemical expenses are a function of annual water production and the cost of chemicals. CWS estimates are based on the cost per unit of production multiplied by the test year production forecasts. CWS'



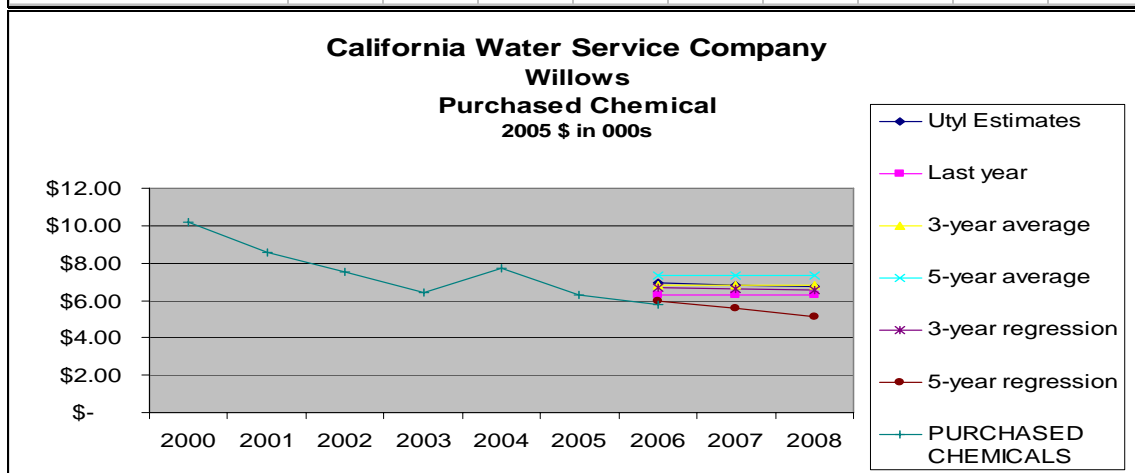
estimated expenses are \$7,200 for Fiscal Year 2007-2008 and \$7,200 for Fiscal Year 2008-2009 respectively.

DRA estimated \$5,800 for Fiscal Year 2007-2008 and \$5,500 for the Fiscal Year 2008-2009. DRA used 5-year regression. Reference Table 3-D. DRA would like to point out that the 2006 historical annualized estimate is \$5,800. This is in line with DRA's estimates.

DRA recommends that its estimates of \$5,800 for Fiscal Year 2007-2008 and \$5,500 for the Fiscal Year 2008-2009 be adopted.

Table 3-D: Purchased Chemicals

California Water Service Company									
Willows									
Purchased Chemicals									
2005 \$ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utl Estimates							\$ 6.91	\$ 6.82	\$ 6.73
Last year							\$ 6.30	\$ 6.30	\$ 6.30
3-year average							\$ 6.81	\$ 6.81	\$ 6.81
5-year average							\$ 7.30	\$ 7.30	\$ 7.30
3-year regression							\$ 6.68	\$ 6.61	\$ 6.54
5-year regression							\$ 5.99	\$ 5.56	\$ 5.12
PURCHASED CHEMICALS	\$ 10.17	\$ 8.56	\$ 7.55	\$ 6.43	\$ 7.69	\$ 6.30	\$ 5.80		



## 6) LABOR

Labor costs included payroll expenses, wages and salaries and overtime for district personnel. However, labor costs do not include benefits. Costs of benefits

are included in the General Office labor accounts. CWS capitalizes labor expenses for its districts. An historic five-year average of capitalized payroll was applied to the total payroll to calculate a capitalized payroll percentage of 8.15%. The capitalized payroll percentage was applied to total forecasted labor expenses for the base year 2006 and the Fiscal Year 2007-2008 and Fiscal Year 2008-2009. Labor is broken down into O&M and A&G categories based on the 2005 recorded costs for each category. CWS O & M payroll category included Operation Payroll and Maintenance Payroll. DRA estimates of A&G labor are based on a percentage allocation of the total (100%) Operating Payroll. DRA's estimates of A&G labor for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 are described in Chapter 4.

CWS did not request additional staff for its Willow district; in 2006 and 2007.

#### **7) OPERATION PAYROLL**

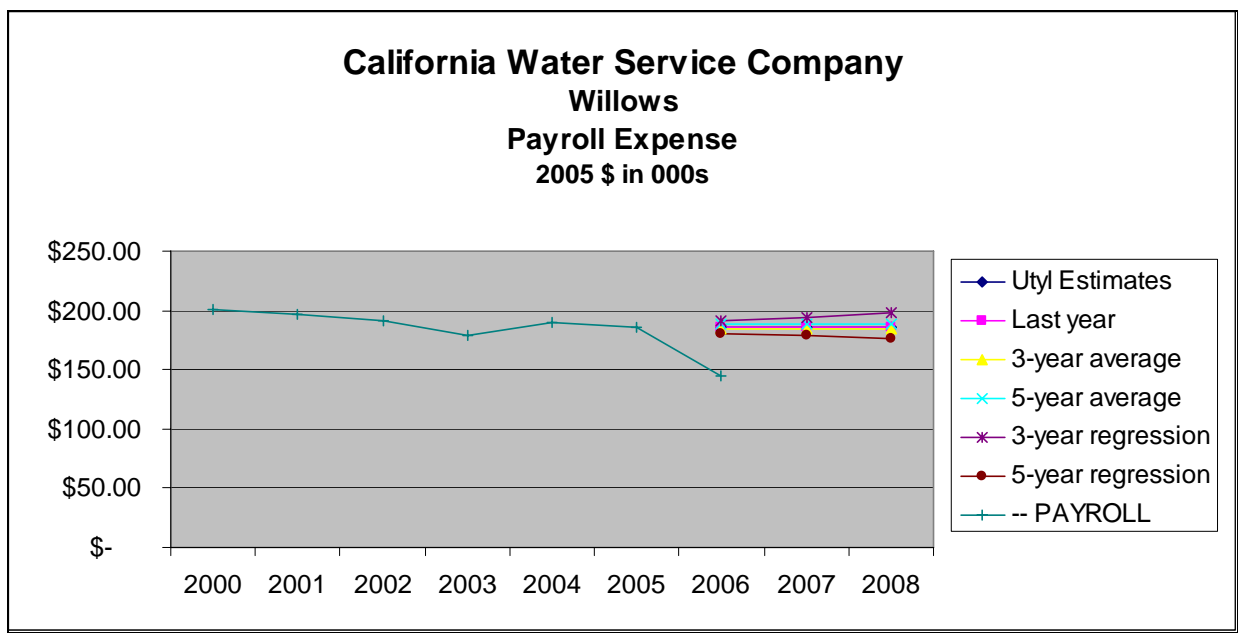
CWS used the last recorded year (2005) as its base year for estimating the labor costs. The payroll expenses are based on the existing district's payroll levels adjusted for new employees and escalated by CWS labor inflation factors which are 3.5% for 2006—based on union contracts—and 3.5% for 2007. There is no union contract for 2008. DRA challenged CWS Operation Payroll estimates for the Test Years 2006, 2007 and 2008. CWS Operation Payroll estimates for each of the Test Years 2006, 2007 and 2008 are \$186,000. For the Fiscal Year 2007-2008 and Fiscal Year 2008-2009; CWS estimated \$203,100 and \$211,400 respectively. DRA would like to point out that the 2006 historical annualized estimate is \$145,070. Also, CWS did not ask for additional workers in 2006, 2007 and 2008. Based on the 2006 historical annualized data, DRA estimated \$145,070 for 2006 and \$150,720. This is in line with DRA's estimates. Ref. Table F.

DRA ask that its estimates of \$145,070 for Fiscal Year 2007-2008 and \$150,720 for the Fiscal Year 2008-2009 be accepted.

1 Table F: Other Payroll

California Water Service Company									
Willows									
Other Payroll									
2005 \$ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utl Estimates							\$ 185.70	\$ 186.33	\$ 186.34
Last year							\$ 185.40	\$ 185.40	\$ 185.40
3-year average							\$ 184.63	\$ 184.63	\$ 184.63
5-year average							\$ 188.46	\$ 188.46	\$ 188.46
3-year regression							\$ 191.11	\$ 194.35	\$ 197.59
5-year regression							\$ 180.90	\$ 178.38	\$ 175.86
-- PAYROLL	\$ 200.40	\$ 197.20	\$ 191.17	\$ 178.92	\$ 189.58	\$ 185.40	\$ 145.07		

2



3

4 **8) POSTAGE**

5 Postage costs are a function of postage rates, the number of customers and  
 6 the number of annual mailings to each customer. CWS used the last recorded year  
 7 (2005) adjusted for inflation. CWS estimated \$9,300 and \$9,500 for Fiscal Year  
 8 2007-2008 and Fiscal Year 2008-2009 respectively.

9 DRA accept CWS estimates of, \$9,300 and \$9,500 for the Fiscal Year  
 10 2007-2008 and Fiscal Year 2008-2009 respectively.

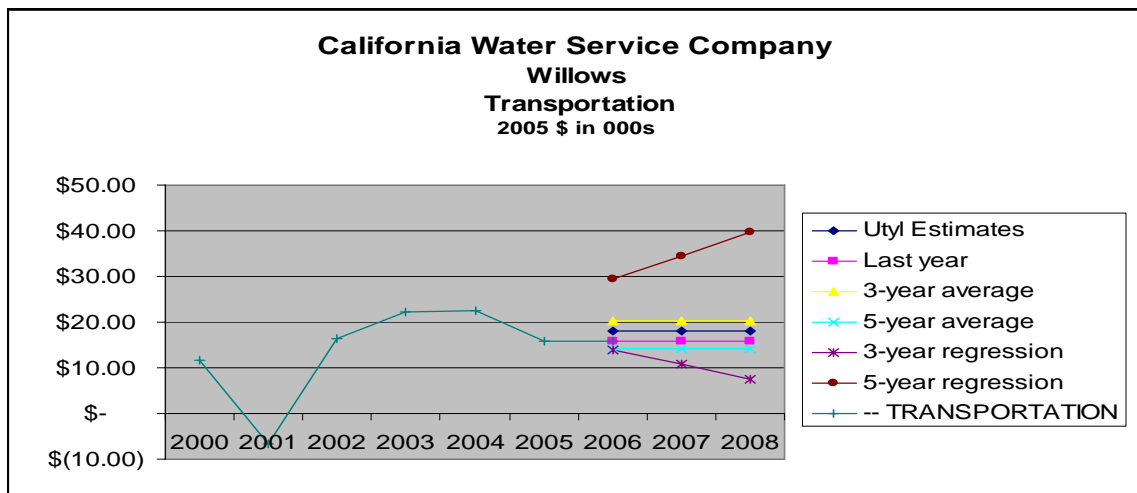
1                   **9) TRANSPORTATION**

2                   CWS estimated Transportation expenses at \$19,300 and \$19,700 for Fiscal  
 3                   Year 2007-2008 and Fiscal Year 2008-2009 respectively. In 2005, CWS recorded  
 4                   \$15,900 in transportation expenses. DRA recognize that fuel cost had risen  
 5                   significantly in the 3rd quarter of 2006; however, the cost has also dropped  
 6                   significantly in 4th quarter of 2006. Therefore, DRA used the last year (2005)  
 7                   adjusted for inflation for its estimates. DRA estimated \$17,400 and \$17,700 for  
 8                   Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. Ref. Table 3-G.

9                   DRA ask that its estimates of \$17,400 and \$17,700 for Fiscal Year 2007-  
 10                  2008 and Fiscal Year 2008-2009 respectively be adopted.

11                  Table 3-G: Operation Transportation

California Water Service Company									
Willows									
Transportation									
2005 \$ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utl Estimates							\$ 18.14	\$ 18.08	\$ 18.00
Last year							\$ 15.90	\$ 15.90	\$ 15.90
3-year average							\$ 20.17	\$ 20.17	\$ 20.17
5-year average							\$ 14.03	\$ 14.03	\$ 14.03
3-year regression							\$ 13.89	\$ 10.75	\$ 7.61
5-year regression							\$ 29.42	\$ 34.55	\$ 39.68
-- TRANSPORTATION	\$ 11.57	\$ (6.71)	\$ 16.35	\$ 22.18	\$ 22.44	\$ 15.90	\$ 15.80		



1           **10) UNCOLLECTIBLES**

2           CWS estimated Uncollectible expense rates at 0.26% for Fiscal Year 2007-  
3           2008 and Fiscal Year 2008-2009 respectively.

4           DRA accept CWS methodology and CWS estimates of 0.26% for the Fiscal  
5           Year 2007-2008 and the Fiscal Year 2008-2009 respectively.

6           **11) SOURCE OF SUPPLY**

7           CWS estimated Source of Supply expenses at \$0.0 for both Fiscal Year  
8           2007-2008 and Fiscal Year 2008-2009 respectively.

9           DRA accept CWS estimates of` \$0.0 for Fiscal Year 2007-2008 and Fiscal  
10          Year 2008-2009 respectively.

11          **12) PUMPING EXPENSES**

12          This expense category track costs of equipment, materials and other Misc.  
13          pumping costs and outside services related to pumping. CWS used a 5-year  
14          adjusted average to estimate the Misc. pumping costs at \$9,800 and \$10,000 for  
15          Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

16          DRA accept CWS estimates of, \$9,800 for Fiscal Year 2007-2008 and  
17          \$10,000 for Fiscal Year 2008-2009 respectively.

18          **13) WATER TREATMENT**

19          Water treatment costs tracks material, equipment maintenance, and outside  
20          services relating to the operation of treatment plant. Chemical costs are accounted  
21          for separately. CWS estimated Water Treatment expenses at \$10,500 and \$10,800  
22          for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively DRA accept

1 CWS estimates of, \$10,500 for Fiscal Year 2007-2008 and \$10,800 for Fiscal  
2 Year 2008-2009 respectively.

3 **14) TRANSMISSION AND DISTRIBUTION**

4 CWS estimated Transmission and Distribution Misc. expenses for the  
5 Fiscal Year 2007-2008 and the Fiscal Year 2008-2009 to be \$9,100 and \$9,300  
6 respectively.

7 DRA accept CWS estimates of, \$9,100 for Fiscal Year 2007-2008 and  
8 \$9,300 for Fiscal Year 2008-2009 respectively

9 **15) CUSTOMER ACCOUNTING**

10 CWS estimated Customer Accounting expenses for the Fiscal Year 2007-  
11 2008 and the Fiscal Year 2008-2009 to be \$28,300 and \$28,900 respectively.

12 DRA accept CWS estimates of, \$28,300 and \$28,900 for Fiscal Year 2007-  
13 2008 and Fiscal Year 2008-2009 respectively.

14 **16) CONSERVATION**

15 Under the Memorandum of Understanding on Urban Water Conservation.,  
16 CWS must implement cost-effective programs when they are funded by the  
17 Commission. Programs break down for conservation and estimates are based on  
18 the Urban Water Management Plan. In 1991, the California Urban Water  
19 Conservation Council (CUWCC) crafted a Memorandum of Understanding  
20 (MOU) regarding Urban Water Conservation in California. Signatories of the  
21 MOU identified 14 Best Management Practices (BMPs) for water conservation—a  
22 very ambitious program However, fifteen years to date, the implementation of  
23 these programs is far from being successful. One of the reasons for this lag in  
24 implementation could be that there is no incentive for water utilities to conserve

water; as demonstrated by CWS historical low spending on water conservation measures--\$1,900 (5-year average, 2001-2005) and \$1,100 (3-year average). CWS request that the Commission grant them 1.5% of revenue for an effective conservation program when the program benefits have not been adequately identified or included in the costs sponsored by CWS in this GRC seems unreasonable. Therefore, DRA used a 3-year regression for its estimates.

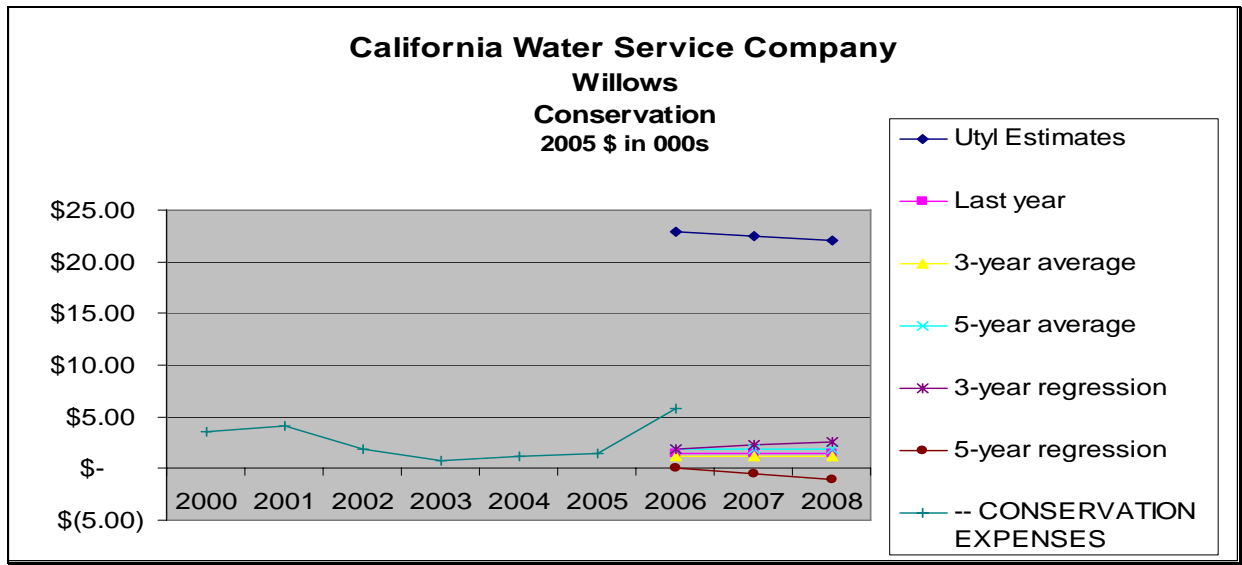
# **17) CWS CONSERVATION PROGRAM**

CWS estimated \$22,900 for Test Year 2006, \$22,500 for Test Year 2007 and \$22,100 for 2008. CWS estimates for the Fiscal Years 2007-2008 and 2008-2009 are \$23,700 and \$24,300 respectively; the Fiscal Year 2007-2008 amount represent a 1580% increase over the last year 2005 recorded amount of \$1,500 and the Fiscal Year 2008-2009 amount represent a 1273.7% increase over the 2006 inflation adjusted amount of \$1,900. DRA estimated \$1,900 for Test Year 2006, \$2,200 for Test Year 2007 and \$2,600 for 2008; for the Fiscal Years 2007-2008 and 2008-2009 DRA's estimates are \$2,600 and \$3,100 respectively. Ref. Table 3-H.

DRA ask that its estimates of \$2,600 and \$3,100 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be adopted.

Table 3-H Conservation Expenses

California Water Service Company									
Willows									
Conservation									
2005 \$ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utl Estimates							\$ 22.89	\$ 22.49	\$ 22.08
Last year							\$ 1.50	\$ 1.50	\$ 1.50
3-year average							\$ 1.15	\$ 1.15	\$ 1.15
5-year average							\$ 1.89	\$ 1.89	\$ 1.89
3-year regression							\$ 1.87	\$ 2.23	\$ 2.59
5-year regression							\$ 0.09	\$ (0.51)	\$ (1.11)
-- CONSERVATION EXPENSES	\$ 3.51	\$ 4.16	\$ 1.83	\$ 0.78	\$ 1.16	\$ 1.50	\$ 5.80		



1

## 2 **18) MAINTENANCE: PAYROLL**

3 ORA did not challenge CWS' Maintenance Payroll estimates for the Fiscal  
4 Year 2007-2008 and Fiscal Year 2008-2009. CWS estimated \$16,600 and \$16,900  
5 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

6 DRA accept CWS estimates of \$16,600 and \$16,900 for the Fiscal Year  
7 2007-2008 and Fiscal Year 2008-2009 respectively.

## 8 **19) MAINTENANCE: TRANSPORTATION**

9 ORA did not challenge CWS' Maintenance Transportation estimates for the  
10 Fiscal Year 2007-2008 and Fiscal Year 2008-2009. CWS estimated \$0.0 for the  
11 Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

12 DRA accept CWS estimates of \$0.0 and \$0.0 for the Fiscal Year 2007-2008  
13 and Fiscal Year 2008-2009 respectively.

## 14 **20) MAINTENANCE: STORES.**

15 CWS estimated Stores expenses at \$5,600 and \$5,700 for Fiscal Year 2007-  
16 2008 and Fiscal Year 2008-2009 respectively.

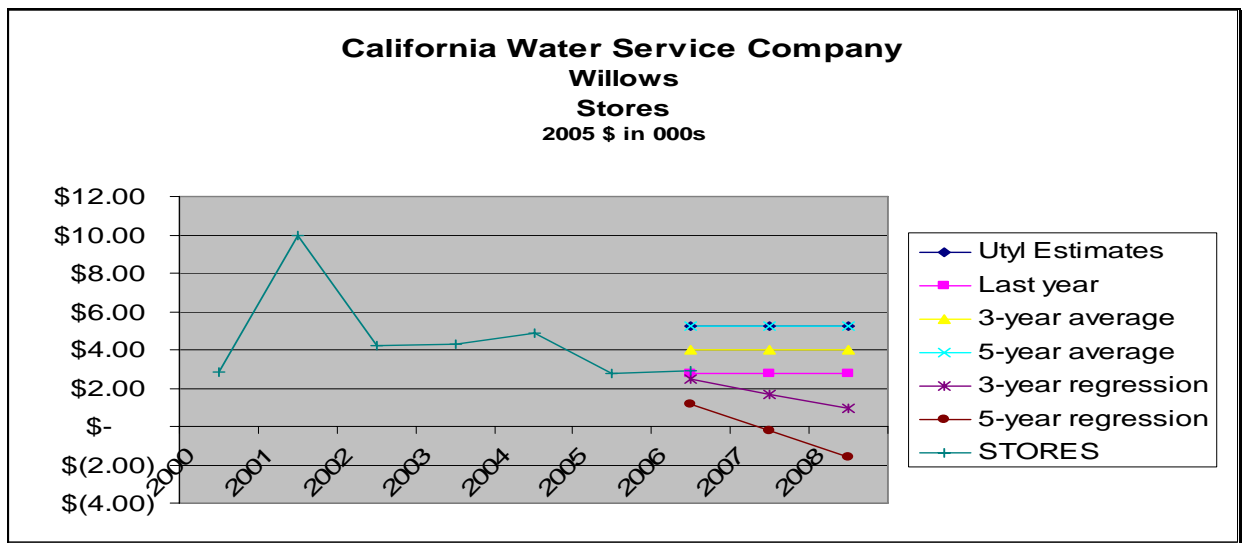


DRA estimated \$3,100 and \$3,100 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009, using last year (2005) recorded amount of \$2,800 adjusted for inflation. Ref. Table 3-I.

DRA ask that its estimates of \$3,100 and \$3,100 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be accepted.

Table 3-I: Maintenance Stores

California Water Service Company									
Willows									
Maintenance Stores									
2005 \$ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utl Estimates							\$ 5.22	\$ 5.22	\$ 5.22
Last year							\$ 2.80	\$ 2.80	\$ 2.80
3-year average							\$ 3.99	\$ 3.99	\$ 3.99
5-year average							\$ 5.23	\$ 5.23	\$ 5.23
3-year regression							\$ 2.47	\$ 1.70	\$ 0.94
5-year regression							\$ 1.13	\$ (0.24)	\$ (1.61)
STORES	\$ 2.80	\$ 9.94	\$ 4.23	\$ 4.33	\$ 4.85	\$ 2.80	\$ 2.90		



## 21) MAINTENANCE: CONTRACTED MAINTENANCE

Contracted Maintenance only includes services and supplies provided by outside contractors for the maintenance of the district facilities. This category includes, without limitation, services related to:

- 1           a. Raising Valve Casings
- 2           b. Repairing Fire Hydrants
- 3           c. Repairing Reservoirs
- 4           d. Painting Water Tanks
- 5           e. Sealing Field Yard Pavement
- 6           f. Painting and Repairing Building Interiors

7           CWS estimated Contracted Maintenance expenses at \$65,200 and  
8   \$66,700—using 5-year inflation adjusted average for Fiscal Year 2007-2008 and  
9   Fiscal Year 2008-2009 respectively.

10          DRA accepts CWS estimates of \$65,200 and \$66,700 for Fiscal Year 2007-  
11   2008 and Fiscal Year 2008-2009 respectively.

#### 12          **D. CONCLUSION**

13          Table 3-A reflects the reasonableness of DRA methodology and analysis of  
14   CWS O & M expenses.

TABLE 3-1

CALIFORNIA WATER SERVICE COMPANY  
WILLOWS DISTRICT

OPERATION & MAINTENANCE EXPENSES

TEST YEAR		2007 - 2008			
Item	DRA	CWS	CWS exceeds DRA		
			Amount	%	
(Thousands of \$)					
<u>At present rates</u>					
Operating Revenues	1,070.2	1,057.4			
Uncollectible rate	<u>0.21839%</u>	<u>0.21839%</u>			
Uncollectibles	2.3	2.3	(0.0)	-1.2%	
<u>Operation Expenses</u>					
Purchased Water	0.0	0.0	0.0	0.0%	
Replenishment Assessment	0.0	0.0	0.0	0.0%	
Groundwater Extraction Charges	0.0	0.0	0.0	0.0%	
Purchased Power	92.1	105.6	13.5	14.7%	
Purchased Chemicals	5.8	7.2	1.4	23.3%	
Payroll	145.1	203.1	58.0	40.0%	
Postage	9.3	9.3	(0.0)	-0.1%	
Transportation	17.4	19.3	1.9	10.9%	
Uncollectibles	2.3	2.3	(0.0)	-1.2%	
Source of Supply	0.0	0.0	0.0	0.0%	
Pumping	9.8	9.8	0.0	0.0%	
Water Treatment	10.5	10.5	0.0	0.0%	
Transmission & Distribution	9.1	9.1	0.0	0.0%	
Customer Accounting	28.3	28.3	0.0	0.0%	
Conservation	2.6	23.7	21.1	797.7%	
Total Operation Expenses	332.4	428.1	95.7	28.8%	
<u>Maintenance Expenses</u>					
Payroll	16.6	16.6	0.0	0.0%	
Transportation	0.0	0.0	0.0	0.0%	
Stores	3.1	5.6	2.5	82.4%	
Contracted Maintenance	65.2	65.2	0.0	0.0%	
Total Maintenance Expense	84.9	87.3	2.4	2.9%	
Total O & M Expenses (incl uncoll)	417.3	515.4	98.1	23.5%	
<u>At proposed rates</u>					
Operating Revenues	1,603.6	1,588.9			
Uncollectible rate	<u>0.21839%</u>	<u>0.21839%</u>			
Uncollectibles	3.5	3.5			
Total O & M Expenses (incl uncoll)	418.4	516.6	98.1	23.5%	

1     **CHAPTER 4: ADMINISTRATIVE & GENERAL EXPENSES**

2     **A. INTRODUCTION**

3         This chapter sets forth DRA's analysis and recommendations for  
4     California Water Service Company's A & G expenses including Payroll,  
5     Transportation Expenses, Rent, Administrative Charges Transferred, Non-  
6     specifics, Amortization of Limited Term Investments, and Dues and Donations  
7     Adjustments. All of DRA's estimates are in Nominal Dollars. A comparison of  
8     total expense estimates for Fiscal Year 2007 – 2008 is presented in Table 4 – 1.

9     **B. SUMMARY OF RECOMMENDATIONS**

10        DRA's estimated total for A&G expenses is \$56,700 for Fiscal Year 2007-  
11     2008. CWS' estimate for the same time period is \$56,800, or -.20% less than  
12     DRA's. DRA's estimated total for A&G expenses is \$58,700 for Fiscal year 2008  
13     – 2009. CWS' estimate for the same time period is \$58,700.

14     **C. DISCUSSION**

15        DRA conducted independent analysis of CWS' work papers and methods  
16     of estimating the Administration & General expenses. Other DRA witnesses  
17     recommended disallowing the intangible plant portion of this district expenses for  
18     the years 2006 through 2009. DRA accepted the company's allocation factors for  
19     A&G payroll.

20        Concerning the Extended Service Protection, or ESP program which was  
21     included as the Administrative Charges Transferred; DRA adjusted it based upon  
22     the fact that CWS used 2005 numbers for Residential Metered and Flat Rate  
23     hookups. DRA decided to use Metered and Flat Rate forecasted residential  
24     hookups for 2006, because it reflects more recent data.

The inflation factors used by DRA are recommended by the Commission's Office of Ratepayers Advocates (DRA) Energy Cost of Service Branch (ECOS), which has traditionally handled inflation issues for the Commissions. These factors were provided in a memorandum from ECOS dated August 2006. The Labor escalation factors are the Consumer Price index for all Urban Consumers (CPI-U). The Non-Labor escalation factors are generated from a composite index of 10 Wholesale Price indexes for material and supply expenses, and the CPI-U weighted 5% for services and consumer related items. The 60/40 factor is a composite index derived from weighting 60 percent Non-Labor and 40 percent for the Compensation per Hour Index. These indices are derived from monthly DRI-WEFA publication, "U.S. Economic Outlook." The above indices and weightings are in conformance with an agreement reached between the Commission's Water Division and the California Water Association under the new rate case plan adopted in D.04-06-018. See Table 4-A.

TABLE 4 - A: ESCALATION FACTORS									
		Compensation per hour		Inflation Rates (%)				Composite Rates % 40/60 Split	
		Non-Farm Rate:							
Year		Calender	Fiscal	Calender		Fiscal		Calendar	Fiscal
		Annual %	Annual %	Non-	Labor	Non	Labor		
		Changes:	Changes:	Labor		Labor			
1997		3.6	4.5	0.6	--	0.3	--	1.8	2
1998		5.3	4.9	0	2.3	0.4	1.9	2.1	2.2
1999		4.4	5.7	0.7	1.5	2.1	1.9	2.2	3.5
2000		6.9	4.8	3.5	2.2	1.8	2.8	4.9	3
2001		2.7	2.8	0	3.4	0	3.1	1.1	1.1
2002		2.8	3.4	0	2.8	1.3	2.2	1.1	2.1
2003		4	4.3	2.5	1.6	4.2	2	3.1	4.2
2004		4.5	4.8	5.8	2.3	5.7	2.5	5.3	5.3
2005		5.1	4.4	5.5	2.7	5.7	3.1	5.3	5.2
2006		3.7	3.8	5.9	3.4	4.4	3.5	5	4.2
2007		3.9	3.9	2.8	3.6	1.8	3.1	3.2	2.6
2008		3.8	3.9	0.7	2.5	0.4	2.2	1.9	1.8
2009		4	4.1	0.1	1.8	0.1	1.8	1.7	1.7
2010		4.1	--	0	1.7	--	--	1.6	--

1      **D. CONCLUSION**

2              DRA recommends adopting CWS numbers for this district.

TABLE 4-1

CALIFORNIA WATER SERVICE COMPANY  
WILLOWS DISTRICT

ADMINISTRATIVE & GENERAL EXPENSES

TEST YEAR              2007 - 2008

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
<u>At present rates</u>				
Oper. Rev. less uncoll.	1,067.9	1,055.1		
Local Franchise Rate	0.0000%	0.0000%		
Franchise tax	0.0	0.0	0.0	0.0%
Payroll	30.9	30.9	0.0	0.0%
Transportation Expenses	0.0	0.0	0.0	0.0%
Rent	7.3	7.3	0.0	0.0%
Admin Charges Trsf	(0.5)	(0.4)	0.1	-20.0%
Nonspecifics	19.1	19.1	0.0	0.0%
Amort of Limited Term Inv.	0.0	0.0	0.0	0.0%
Dues & Donations Adjustment	(0.1)	(0.1)	0.0	0.0%
Total A & G Expenses (incl. local Fran.)	56.7 56.7	56.8 56.8	0.1 0.1	0.2% 0.2%
<u>At proposed rates</u>				
Oper. Rev. less uncoll.	1,600.1	1,585.4		
Local Franchise Rate	0.0000%	0.0000%		
Fran. tax	0.0	0.0	0.0	0.0%
Total A & G Expenses (incl. local Fran.)	56.7 56.7	56.8 56.8	0.1 0.1	0.2% 0.2%

3

## **CHAPTER 5: TAXES OTHER THAN INCOME**

### **A. INTRODUCTION**

This chapter sets forth DRA's analysis and recommendations of Taxes Other Than Income" for CWS for Fiscal Years 2007 – 2008, and 2008 – 2009. Taxes Other Than Income include ad valorem tax (property tax), business licenses, franchise, and payroll taxes. Ad valorem taxes are property taxes paid on net utility plant. Payroll taxes generally include social security tax, Federal Insurance Contribution ACT (FICA) tax consisting of Old Age Benefits and Medicare, Federal Unemployment Insurance (FUI), State Unemployment Insurance (SUI).

DRA's and CWS estimates of Taxes Other Than Income for Fiscal Years 2007-2008, and 2008-2009 are included in Table 5-1 at the end of the chapter.

### **B. SUMMARY OF RECOMMENDATIONS**

DRA agrees with the methodology that CWS proposes using to determine the estimated expenses for Fiscal Year 2007-2008, and 2008-2009 for ad valorem taxes. Additional differences in the taxes, or fees are due to differences between DRA and CWS estimates of plant additions. A comparison of DRA's and the company's estimates is shown in Table 5-1.

### **C. CONCLUSION**

1) Ad Valorem Taxes - Differences between DRA and CWS are attributable to the differences in Plant estimates.

2) Payroll Taxes - There are no differences in payroll taxes.

DRA recommends adopting its numbers for this district. See Table 5-1.

TABLE 5-1  
CALIFORNIA WATER SERVICE COMPANY  
WILLOWS DISTRICT

TAX DEDUCTIONS AND CREDITS

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Ad Valorem taxes	21.1	24.4	3.3	15.6%
Local Franchise (pres rates)	0.0	0.0	0.0	0.0%
Local Franchise (prop rates)	0.0	0.0	0.0	0.0%
Social Security Taxes	20.8	20.8	0.0	0.0%
Business License (pres rates)	19.2	19.2	0.0	0.0%
Business License (prop rates)	28.1	28.1	0.0	0.0%
Taxes other than income (present rates)	61.1	64.4	3.3	5.4%
Taxes other than income (proposed rates)	70.0	73.3	3.3	4.7%
State Tax Depreciation	194.5	235.9	41.4	21.3%
Transp. Dep. Adj.	(9.2)	(9.2)	0.0	0.0%
State Tax Deduct(pres rates)	185.3	226.7	41.4	22.4%
State Tax Deduct(prop rates)	185.3	226.7	41.4	22.4%
Federal Tax Depreciation	105.8	128.3	22.5	21.3%
State Income Tax	(12.3)	(12.3)	0.0	0.0%
Transp. Dep. Adj.	(9.2)	(9.2)	0.0	0.0%
Pre. Stock Div. Credit	0.2	0.2	0.0	0.0%
Am. Jobs Act Deduction	1.1	1.1	0.0	0.0%
Fed. Tax Deduct.(pres rates)	84.5	107.0	22.5	26.7%
Fed. Tax Deduct.(prop rates)	103.6	126.1	22.5	21.8%

1



1 **CHAPTER 6: INCOME TAXES**

2 **A. INTRODUCTION**

3 This Chapter presents DRA's analysis of Income Taxes for the Willows  
4 District of California Water Service Company. Tables 6-1 and 6-2 compare in  
5 detail DRA's and CWS' tax deductions and taxes estimates for the Fiscal Year  
6 2007 – 2008 and the Escalation Year 2008 – 2009.

7 **B. SUMMARY OF RECOMMENDATIONS**

8 DRA agrees with the methods CWS used to calculate income tax. DRA's  
9 lower estimates for operation and maintenance expenses, General Office prorated  
10 expenses and capitalized interest calculations account for the difference in the  
11 final tax estimates.

12 **C. DISCUSSION**

13 The tax deductions and credits in this proceeding were calculated in  
14 accordance with the normalization requirements of the Economic Recovery Act of  
15 1981 (ERTA). Further, the provisions of the Tax Equity and Fiscal Responsibility  
16 Act of 1982 (TEFRA) have been incorporated in the tax deduction estimates.  
17 Finally, the provisions of the Tax Reform Act of 1986 (TRA 86) have been  
18 estimated and included into the general rate case in accordance with the  
19 requirements of Decision 87-09-026 dated September 10, 1987, Decision 87-12-  
20 028 dated December 9, 1987 and Decision 88-01-061 dated January 28, 1988.

21 Some of the provisions of TRA 86 have been incorporated into California  
22 Corporation Franchise Tax (CCFT) law in the California Bank and Corporation  
23 Tax Fairness, Simplification and Conformity Act of 1987 (State Tax Act of 1987).  
24 The provisions have been estimated and integrated into the CCFT calculations for  
25 this general rate case.

1 DRA calculated tax depreciation for state and federal income tax purposes  
2 by applying the ratio of DRA's estimate of net plant to CWS' estimate of net plant  
3 to CWS' tax depreciation estimate. This methodology will be tried up when a  
4 Commission decision is issued in this case.

5 To calculate the interest deduction, DRA used its ratebase and multiplied it  
6 by the weighted cost of debt, whereas CWS reduced the ratebase by working cash  
7 before multiplying by the weighted cost of debt. DRA followed the policy  
8 outlined in D.03-12-040; because working cash is a part of ratebase and, therefore,  
9 should be considered when calculating the deduction for interest on debt during  
10 the calculation of income taxes.

11 Decision 89-11-058 issued on November 22, 1989, requires that for  
12 ratemaking purposes the prior year's CFFT should be used in the calculation of  
13 Fiscal Year 2005-2006 and the escalation Year 2006-2007 Federal Income Tax  
14 (FIT). The tax requirements of that decision have been incorporated in this  
15 general rate case by both DRA and CWS. The prior year's CCFT was used as a  
16 deduction in arriving at the Fiscal Year 2007-2008 and the Escalation Year 2008-  
17 2009 estimated FIT.

18 Corporations may deduct dividends paid on special preferred stock issues  
19 or issues made to redeem such preferred stock. The Preferred Stock Dividend  
20 Credit tax deduction is reflected in DRA's calculations.

21 CWS has applied the tax incentive on production from the American Job  
22 Creation Act of 2003. DRA agrees.

TABLE 6-1  
CALIFORNIA WATER SERVICE COMPANY  
WILLOWS DISTRICT

TAXES BASED ON INCOME

TEST YEAR                      2007 - 2008

(PRESENT RATES)

Item	DRA	CWS	CWS	
			exceeds DRA Amount	%
(Thousands of \$)				
Operating revenues	1,070.2	1,057.4	(12.8)	-1.2%
Deductions:				
O & M expenses	417.3	515.4	98.1	23.5%
A & G expenses	56.7	56.8	0.1	0.2%
G. O. Prorated expenses	217.0	228.7	11.7	5.4%
Taxes not on Income	61.1	64.4	3.3	5.4%
Transportation Deprec Adj	(9.2)	(9.2)	0.0	0.0%
Interest	60.1	103.1	43.0	71.6%
Income before taxes	267.3	98.2	(169.0)	-63.2%
<u>Calif. Corp. Franchise Tax</u>				
State Tax Deductions	(194.5)	(235.9)	-41.4	21.3%
Taxable income for CCFT	72.8	(137.7)	(210.4)	-289.2%
CCFT Rate	8.84%	8.84%		
CCFT	6.4	(12.2)	(18.6)	-289.2%
Addl. Tax .06% per D.84-05-036	(0.1)	(0.1)	0.0	0.0%
Adjusted CCFT	6.3	(12.3)	(18.6)	-293.7%
<u>Federal Income Tax</u>				
Tax Depreciation	105.8	128.3	22.5	21.3%
State Corp Franch Tax	(12.3)	(12.3)	0.0	0.0%
Pref Stock Dividend Credit	0.2	0.2	0.0	0.0%
Am. Jobs Act Deduction	1.1	1.1	0.0	0.0%
Taxable income for FIT	172.5	(19.1)	(191.5)	-111.1%
FIT Rate	35.00%	35.00%		
FIT	60.4	(10.6)	(71.0)	-117.6%
Total FIT & CCFT	66.7	(22.9)	(89.6)	-134.3%

TABLE 6-2

CALIFORNIA WATER SERVICE COMPANY  
WILLOWS DISTRICT

TAXES BASED ON INCOME

TEST YEAR                      2007 - 2008

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Operating revenues	1,603.6	1,588.9	(14.7)	-0.9%
Deductions:				
O & M expenses	418.4	516.6	98.1	23.5%
A & G expenses	56.7	56.8	0.1	0.2%
G. O. Prorated expenses	217.0	228.7	11.7	5.4%
Taxes not on Income	70.0	73.3	3.3	4.7%
Transportation Deprec Adj	(9.2)	(9.2)	0.0	0.0%
Interest	60.1	103.1	43.0	71.6%
Income before taxes	790.6	619.7	(170.9)	-21.6%
<u>Calif. Corp. Franchise Tax</u>				
State Tax Deductions	(194.5)	(235.9)	-41.4	21.3%
Taxable income for CCFT	596.1	383.8	(212.3)	-35.6%
CCFT Rate	8.84%	8.84%		
CCFT	52.7	33.9	(18.8)	-35.6%
Addl. Tax .06% per D.84-05-036	-0.1	-0.1	0.0	0.0%
Adjusted CCFT	52.6	33.8	(18.8)	-35.7%
<u>Federal Income Tax</u>				
Tax Depreciation	105.8	128.3	22.5	21.3%
State Corp Franch Tax	6.8	6.8	0.0	0.0%
Pref Stock Dividend Credit	0.2	0.2	0.0	0.0%
Am. Jobs Act Deduction	1.1	1.1	0.0	0.0%
Taxable income for FIT	676.7	483.3	(193.4)	-28.6%
FIT Rate	35.00%	35.00%		
FIT	236.9	169.1	(67.8)	-28.6%
Total FIT & CCFT	289.4	202.9	(86.5)	-29.9%

## CHAPTER 7: PLANT IN SERVICE

### A. INTRODUCTION

This Chapter provides DRA's assessment of utility plant in service. DRA and CWS estimates for capital investment expenditures for Test Year 2007-2008 and Escalation Year 2008-2009 are located in Tables 7-1 and 7-2 at the end of this Chapter.

DRA reviewed and analyzed CWS' testimony, application, workpapers, master data request responses, capital project justifications, cost estimates, and responses to DRA data requests. During August 2006, DRA conducted a field investigation of many of the proposed specific plant additions before making its independent recommendations.

### B. SUMMARY OF RECOMMENDATIONS

DRA recommends Gross Additions of \$501,300 for the Willows District for Test Year 2007-2008 and \$716,600 for Test Year 2008-2009. Table 7-A demonstrates the comparison of DRA's recommended capital investment budget with CWS' requested final GRC capital budget.

**Table 7-A**  
**California Water Service Company**  
**Willows District**  
**Budget for Capital Investment Projects**  
**(\$Dollars in Thousands)**

	<i>DRA</i>	<i>CWS</i>	<i>\$ Diff.</i>
2007-2008 Non-Specific	\$ 43	\$ 84	\$ (40)
2007-2008 Specific	\$447	\$ 1,565	\$ (1,118)
<i>Total</i>	\$490	\$ 1,648	\$ (1,158)
2008-2009 Non-Specific	\$ 44	\$ 90	\$ (46)
2008-2009 Specific	\$661	\$ 973	\$ (312)
<i>Total</i>	\$705	\$ 1,063	\$ (358)

1           The main differences between the two estimates are due to CWS'  
2 inconsistent use of overhead and contingency values, DRA's different  
3 interpretations of recent cost estimates of similar projects and DRA's  
4 recommendations to submit the projects related to the new well site and storage  
5 tank via Advice Letter.

## 6           **C. DISCUSSION**

7           **1)** DRA reviewed submittals provided by CWS including the Application,  
8 Master Data Request Responses, work papers, and responses to DRA Data  
9 Requests. DRA conducted field trips in the district and visited job sites of projects  
10 previously completed or planned for future construction.

11           **2)** The average utility plant additions for Willows District have been  
12 about \$192,238 for the past five years covering 2001 through 2005. The budget  
13 request for the period of 2006-2008 is significantly greater than recent history  
14 primarily due to constructing a new tank and booster station, updating the  
15 hydraulic model and developing a facilities master plan.

16           **3)** DRA concurs with the 2007-2008 projects submitted by CWS with the  
17 exception that DRA recommends adjustments to three specific projects and the  
18 non-specifics budget. These adjustments are listed in Table 7-B and described in  
19 paragraphs 4) through 6).

Table 7-B

California Water Service Company  
Willows District  
DRA Exceptions to 2007 Capital Expenditures Budget  
Dollars in Thousands

<i><b>Project</b></i>	<i><b>Description</b></i>	<i><b>DRA</b></i>	<i><b>CWS</b></i>	<i><b>\$ Diff.</b></i>
15440	Tank & Booster Station	37	371	334
15436	Tank	0	769	769
Various	Equipment	0	15	15
<i><b>SUBTOTAL</b></i>		<i><b>\$ 37</b></i>	<i><b>\$ 1,155</b></i>	<i><b>\$ 1,118</b></i>
<i><b>Non Specifics</b></i>		<i><b>\$ 43</b></i>	<i><b>\$ 84</b></i>	<i><b>\$ 40</b></i>

**4) Project 15440 – New Well Phase I**

This project entails purchasing land for a new well site. The new well is needed to meet maximum day demand based on the AWWA standards. CWS estimated the cost at \$371,100. DRA concurs with the need for this project. . The land price appears to be based on median price per square foot based on properties sold during October 2006 for real estate prices in Willows<sup>1</sup>. That is, CWS used the average price per square foot for a 10,000 square foot developed residential lot

During the field visit to the site, CWS had indicated that there was potential for collaborating with Wal-Mart management regarding a water storage tank on the site of a proposed Wal-Mart Supercenter in Willows. DRA understands that Wal-Mart intends to build a Supercenter on the site of the existing Willows Wal-Mart store. Given that possibility, then it may be possible to acquire the land at a lower cost than the CWS proposal which appears to be based on the price of *developed residential* Willows real estate. After DRA reviewed commercial real

<sup>1</sup> Downloaded from www.realestate.yahoo.com for City of Willows on November 5, 2006.

estate currently available in the Willows area, there is land currently on the market adjacent to the current Wal-Mart store offered at a price of \$27,000 per acre<sup>2</sup>. DRA recommends decreasing project contingency to 15% and using an 8% construction overhead rate. Using these alternative assumptions, DRA recommends that the cost estimate for this project should be revised to \$37,000.

#### **5) Project 15436 – New 500,000 gallon tank**

CWS proposes installing a 500,000 gallon tank near the site of a new Super Wal-Mart. The estimated cost is \$769,300. Due to the uncertainty of the project and potential collaboration with Wal-Mart on the costs, DRA recommends that this project should be submitted as an Advice letter. DRA estimated several adjustments to the cost estimate and recommends that the project should be capped at \$594,110. The adjustments are based on assuming tank construction costs based on RSMeans estimates, and comparisons to similar jobs.

#### **6) Replace Office Equipment**

CWS proposes replacing file cabinets, office chairs, office desks, copiers, and drinking fountain in the customer center. The estimated cost is \$15,000. DRA recommends against approving these expenses because during the field visit to the Customer Center, these items are considered functional.

#### **7) Non-Specific Budget Category – 2007-2008**

CWS proposes \$83,600 for the 2007 non-specific capital budget. CWS uses a four-step process to adjust recorded data for inflation, calculate a three-year arithmetic mean, trend constant dollar mean values, and apply inflation factors to

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<sup>2</sup> Property Description of site adjacent to existing Wal-Mart store with over 1/3 mile of Interstate 5 frontage in Glenn County near Willows, California. Downloaded from <http://www.loopnet.com> on November 27, 2006.



test year values<sup>3</sup>. DRA recommends using a ten-year average based on the actual non-specific expenditures from 1996 to 2005 to estimate the non-specific capital budget and provides a cost estimate of \$43,320.

#### 8) 2008-2009 Projects

DRA concurs with the 2008-2009 projects submitted by CWS with the exception that DRA recommends adjustments to four specific projects and the non-specifics budget. These adjustments are listed in Table 7-C and described in paragraphs 9) through 13).

**Table 7-C**

**California Water Service Company  
Willows District  
DRA Exceptions to 2008 Capital Expenditures Budget  
(Dollars in Thousands)**

<i><b>Project</b></i>		<i><b>DRA</b></i>	<i><b>CWS</b></i>	<i><b>\$ Diff</b></i>
15433	Booster Station	\$ 315	\$ 331	\$ 16
15064	6-in main	101	165	64
14934	Gate Valves	75	82	7
15237	Hydraulic Model and Master Plan	0	225	225
<i><b>Subtotal Specifics</b></i>		<i><b>\$ 490</b></i>	<i><b>\$ 802</b></i>	<i><b>\$ 312</b></i>
<i><b>Subtotal Non specifics</b></i>		<i><b>\$ 44</b></i>	<i><b>\$ 90</b></i>	<i><b>\$ 46</b></i>

#### 9) Project 15433 – New Booster Station

CWS requested \$ 330,965 to construct a booster station related to the new 500,000 gallon tank constructed under Project 15436. DRA concurs with the need for this project. DRA estimated two adjustments to the cost estimate. DRA uses a

<sup>3</sup> CWS Report on the Results of Operation, for the Oroville District, page 48, paragraph 12.

1 construction overhead rate of 8% and project contingency rate of 20% and  
2 recommends a resulting project cost of \$315,460.

3 **10) Project 15064 – Install 6-inch PVC Pipeline in Murdock Street**

4 CWS requested \$164,400 to replace small size mains in Murdock Street to  
5 improve water quality and fire protection in the neighborhood. DRA concurs with  
6 the need for this project because it will improve reliability and water quality. The  
7 cost estimate submitted for this project contained arithmetic errors. DRA  
8 recommends that the cost estimate should be adjusted to \$100,700.

9 **11) Project 14934 –10 Gate Valves at Various Locations**

10 CWS proposes installing additional gate valves to create smaller shutdown  
11 areas to reduce customer impact of outages and to assist with efficient system  
12 flushing. DRA concurs with the need for this project. DRA recommends  
13 adjustments to the cost estimate to reduce the project contingency from 30% to  
14 20% and to reduce construction overhead rates to 8%. DRA recommends that the  
15 cost estimate should be reduced from \$81,900 to \$74,680.

16 **12) Project 15237 - Water Supply and Facilities Master Plan**

17 CWS proposes \$75,000 for consultants to update the Willows District  
18 hydraulic model and \$150,000 for consultants to develop the water supply and  
19 facilities master plan. DRA does not concur with expenditures of \$225,000 for  
20 professional service consultants. CWS provides insufficient analysis of  
21 alternatives to this expenditure and provides insufficient justification of the cost  
22 benefit. D.04-04-041 supports DRA's recommendation. In that case, CWS  
23 agreed to develop the water supply and facilities master plan using in-house  
24 personnel without adding to the cost of general office expenses.

1 “The parties disagreed about certain capital expenses,  
2 especially those involving the preparation of water  
3 supply and facilities master plans (WSMP) for each of  
4 the four districts. The parties agreed that WSMP are  
5 more critical for some districts than others and that  
6 some of the plans can be prepared by CWS’ in-house  
7 personnel. Specifically, the parties agreed on the  
8 recovery of costs for the preparation of the Dominguez  
9 WSMP. CWS, however, will prepare in-house WSMPs  
10 for Selma and Oroville without adding to the cost to  
11 the test year budgets.<sup>4</sup>”

12 “In all districts in this proceeding, Cal Water requested  
13 capital projects for water supply and facilities master  
14 plans (WSMP). ORA recommended the Commission  
15 disallow these projects mainly because it hadn’t been  
16 convinced of the need for the projects in all districts.  
17 Both parties agreed that a WSMP had been completed  
18 in 2001 in Palos Verdes. Furthermore, ORA contended  
19 that water supply planning is already a routine part of  
20 Cal Water’s business. In its rebuttal, Cal Water  
21 contended that these plans serve as a basis for facilities  
22 construction and management for a twenty-year  
23 horizon and will help Cal Water justify future capital  
24 projects to the Commission. Cal Water further stated it  
25 did not have the expertise in its engineering  
26 department to complete these studies. Cal Water also  
27 pointed out that these plans would be less expensive if  
28 Cal Water had experienced personnel on staff to  
29 complete the studies. After discussions, Cal Water and  
30 ORA agree that WSMPs are prudent. However, ORA  
31 and Cal Water now agree that the plans for Oroville  
32 and Selma are less critical than for Dominguez-South  
33 Bay. Therefore, ORA agrees to allow a one-time cost  
34 in the 2004 capital budget of \$135,000 for the WSMP  
35 in Dominguez-South Bay for \$135,000 in the 2004  
36 capital budget. Cal Water will complete WSMPs for  
37 Selma and Oroville with internal staff, but those  
38 capital projects will not be included in the test year  
39 budgets. Furthermore, ORA agrees that Cal Water

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<sup>4</sup> CPUC Decision 04-04-041 dated April 22, 2004, page 16.

1 should hire without adding to the operating expenses  
2 of the general office, the additional engineering  
3 complement necessary to complete future WSMP  
4 projects in-house.”<sup>5</sup>

5 DRA recommends disallowing the expenses for each project.

6 **13)Non-Specific Budget Category – 2008-2009**

7 CWS proposes \$90,400 for the 2008 non-specific capital budget. CWS  
8 uses a four-step process to adjust recorded data for inflation, calculate a three-year  
9 arithmetic mean, trend constant dollar mean values, and apply inflation factors to  
10 test year values<sup>6</sup>. DRA recommends using a ten-year average based on the actual  
11 non-specific expenditures from 1996 to 2005 to estimate the non-specific capital  
12 budget and provides a cost estimate of \$44,110.

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<sup>5</sup> Ibid, Attachment A to the Settlement, page 8 of 24.

<sup>6</sup> CWS Report on the Results of Operation, for the Willows District, page 46, paragraph 12.

TABLE 7-1

CALIFORNIA WATER SERVICE COMPANY  
WILLOWS DISTRICT

PLANT IN SERVICE

TEST YEAR                      2007 - 2008

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Plant in Service - BOY	5,033.5	5,033.5	0.0	0.0%
Additions				
Gross Additions	501.3	1,659.8	1,158.5	231.1%
Capitalized Interest	9.4	30.3	20.9	222.4%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	<u>(7.1)</u>	<u>(7.1)</u>	<u>0.0</u>	<u>0.0%</u>
Net Additions	503.6	1,683.0	1,179.4	234.2%
Plant in Service - EOY	5,537.1	6,716.5	1,179.4	21.3%
Weighting Factor	100%	100%		
Wtd. Avg. Plant in Service	5,537.1	6,716.5	1,179.4	21.3%

TABLE 7-2

CALIFORNIA WATER SERVICE COMPANY  
WILLOWS DISTRICT

PLANT IN SERVICE

ESCALATION YEAR                      2008 - 2009

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Plant in Service - BOY	5,537.1	6,716.5	1,179.4	21.3%
Additions				
Gross Additions	716.6	1,074.6	358.0	50.0%
Capitalized Interest	13.4	19.6	6.2	46.8%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	<u>(7.1)</u>	<u>(7.1)</u>	<u>0.0</u>	<u>0.0%</u>
Net Additions	722.9	1,087.1	364.2	50.4%
Plant in Service - EOY	6,259.9	7,803.6	1,543.7	24.7%
Weighting Factor	100%	100%		
Wtd. Avg. Plant in Service	6,259.9	7,803.6	1,543.7	24.7%

1       **CHAPTER 8: DEPRECIATION EXPENSE AND RESERVE**

2       **A. INTRODUCTION**

3           This Chapter sets forth DRA’s analyses and recommendations regarding  
4 depreciation reserve and expense for Willows District. The tables at the end of the  
5 Chapter provide DRA’s and CWS estimates for Depreciation Reserve and  
6 Expense for Test Year 2007-2008 and Escalation Year 2008-2009.

7       **B. SUMMARY OF RECOMMENDATIONS**

8           DRA agrees with the methods used to calculate depreciation reserve and  
9 depreciation expense for Test Year 2007-2008 and Escalation Year 2008-2009.  
10 Differences between DRA and CWS are due to different plant additions.

11       **C. DISCUSSION**

12           As part of its review, DRA compared the values reported in the GRC  
13 application with CWS annual reports to track beginning of year depreciation  
14 reserves. CWS used the composite rate of 2.72% for the depreciation accrual<sup>7</sup>  
15 based on a straight-line remaining life curve using balances for this case consistent  
16 with Standard Practice U-4. The differences between CWS and DRA’s estimates  
17 are related to the differences in plant additions.

18       **D. CONCLUSION**

19           DRA reviews and accepts the CWS methodology.

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<sup>7</sup> CWS Workpapers, WP9C1.

TABLE 8-1

CALIFORNIA WATER SERVICE COMPANY  
WILLOWS DISTRICT

DEPRECIATION RESERVE & EXPENSE

TEST YEAR            2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
(Thousands of \$)				
Depreciation Reserve - BOY	2,091.7	2,091.7	0.0	0.0%
Accruals				
Transportation Equipment	8.1	8.1	0.0	0.0%
Contributed Plant	10.1	10.1	0.0	0.0%
Other Plant in Service	125.2	136.1	10.9	8.7%
Total Accruals	143.4	154.3	10.9	7.6%
Retirements	(7.3)	(7.3)	0.0	0.0%
Depreciation Reserve - EOY	2,227.8	2,238.7	10.9	0.5%
Weighting Factor	100%	100%		
Wtd. Avg. Depr. Reserve	2,227.8	2,238.7	10.9	0.5%

1



TABLE 8-2

CALIFORNIA WATER SERVICE COMPANY  
WILLOWS DISTRICT

DEPRECIATION RESERVE & EXPENSE

ESCALATION YEAR            2008 - 2009

Item	DRA	CWS	CWS exceeds DRA Amount	%
(Thousands of \$)				
Depreciation Reserve - BOY	2,220.9	2,220.9	0.0	0.0%
Accruals				
Transportation Equipment	8.1	8.1	0.0	0.0%
Contributed Plant	10.1	10.1	0.0	0.0%
Other Plant in Service	139.0	171.7	32.7	23.5%
Total Accruals	157.2	189.9	32.7	20.8%
Retirements	(7.3)	(7.3)	0.0	0.0%
Depreciation Reserve - EOY	2,370.8	2,403.5	32.7	1.4%
Weighting Factor	100%	100%		
Wtd. Avg. Depr. Reserve	2,370.8	2,403.5	32.7	1.4%

1

## **CHAPTER 9: RATE BASE AND NET TO GROSS MULTIPLIER**

### **A. INTRODUCTION**

This Chapter sets forth DRA's analysis and recommendations of rate base for the Willows District. Tables 9-1 and 9-2 at the end of this report compare DRA's and CWS' estimates. Differences are due to different estimates of plant additions and working cash allowances.

### **B. SUMMARY OF RECOMMENDATIONS**

DRA recommends a weighted average rate base for Willows District as follows in Table 9-A below:

**Table 9-A**  
**California Water Service Company**  
**Willows District**  
**DRA Recommended Weighted Average Rate Base Summary**  
**(Dollars in Thousands)**

	DRA Weighted Average Rate Base  (\$000)	CWS Weighted Average Rate Base  (\$000)	CWS Exceeds DRA Amount By  (\$000)	CWS Exceeds DRA Amount By  %
2007-2008	\$2,403.7	\$3,625.9	\$1,222.2	50.8%
2008-2009	\$2,974.0	\$4,536.4	\$1,562.4	52.5%

Tables 9-1 and 9-2 at the end of this chapter provide a summary of DRA's weighted average rate base and depreciated rate base estimated for Willows District.

1                   **C. DISCUSSION**

2                   **1) Materials and Supplies**

3                   CWS request is based on a three-year average amount of \$16,800. DRA  
4                   differed by using the five-year average amount of \$15,100.

5                   **2) Working Cash Allowance**

6                   In the previous GRC, CWS had not updated its lead/lag studies since the  
7                   late 1980s. CWS managers had indicated to DRA that a project was underway to  
8                   update the lead/lag study. CWS provided the new lead/lag study with the  
9                   workpapers during this GRC application. DRA reviewed the new lead/lag study  
10                  and noted that it is comprehensive and well-documented.

11                 CWS produced a lead/lag calculation of working cash that indicates a  
12                 positive working cash allowance of \$43,700 for Test Year 2007-2008 and \$44,700  
13                 for Escalation Year 2008-2009. DRA disagreed with some of the lag days  
14                 included in the CWS calculation and recommended some adjustments to CWS'  
15                 lead/lag calculation and the estimated working cash allowance. DRA recommends  
16                 negative working cash allowance of \$8,300 for Test Year 2007-2008 and negative  
17                 \$5,700 for Escalation Year 2008-2009.

18                 DRA estimates different lag days than CWS for several of the CWS  
19                 expenses such as ad valorem taxes, state corporation franchise tax, and federal  
20                 income tax. DRA calculated the average lag days for ad valorem taxes at 70.5  
21                 days instead of the 41 days estimated by CWS. DRA estimated the lag days for  
22                 State corporation franchise tax and federal income tax to be 93.0 days. In D.03-  
23                 09-021 which determined General Office expenditures, CWS and DRA agreed  
24                 that 93 lag days fairly represents the timing and amount of taxes paid<sup>8</sup>. DRA

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<sup>8</sup> CPUC Decision 03-09-021, dated September 4, 2003, paragraph 4.03

1 recommends using 93 days rather than the 37.0 days and 40.9 days, respectively,  
2 estimated by CWS.

3 **3) Net to Gross Multiplier**

4 The net-to-gross multiplier represents the change in gross revenue required  
5 to produce a unit change in net revenue. DRA recommends that the net-to-gross  
6 multipliers shown in the table below be applied in developing the revenue  
7 requirement change calculation for the Test Year 2007-2008. CWS and DRA  
8 used the same methodology to calculate the net-to-gross multiplier.

9 **Table 9-B**  
10 **California Water Service Company**  
11 **Willows District**  
12 **Net to Gross Multipliers**  
13

<b>DRA</b>	<b>CWS</b>
<b>Net to Gross Multiplier</b>	<b>Net to Gross Multiplier</b>
1.82094	1.82094

14

TABLE 9-1

CALIFORNIA WATER SERVICE COMPANY  
WILLOWS DISTRICT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR          2007 - 2008

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Wtd.Avg. Plant in Serv.	5,537.1	6,716.5	1,179.4	21.3%
Materials & Supplies	15.1	16.8	1.7	11.3%
Working Cash - Lead-Lag	(8.3)	43.7	52.0	-628.1%
Amt withheld from Employees	(0.4)	(0.4)	0.0	0.0%
Wtd. Avg. Depr. Res.	(2,227.8)	(2,238.7)	(10.9)	0.5%
Advances	369.2	369.2	0.0	0.0%
Contributions	268.4	268.4	0.0	0.0%
Reserved Amort.Intangibles	0.0	0.0	0.0	0.0%
Deferred Taxes	405.6	405.6	0.0	0.0%
Unamortized ITC	11.0	11.0	0.0	0.0%
General Office Alloc	124.7	124.7	0.0	0.0%
Taxes on - Advances	(19.9)	(19.9)	0.0	0.0%
Taxes on - CIAC	37.4	37.4	0.0	0.0%
Average Rate Base	2,403.7	3,625.9	1,222.2	50.8%
Interest Calculation:				
Avg Rate Base less work cash	2,403.7	3,565.8	1,162.1	48.3%
x Weighted Cost of Debt	2.89%	2.890%	0.00%	0%
Interest Expense	69.5	103.1	33.6	48.3%
less Cap. Interest	(9.4)	0.0	9.4	-100.0%
Net Interest Expense	60.1	103.1	43.0	71.6%

1

2

TABLE 9-2

CALIFORNIA WATER SERVICE COMPANY  
WILLOWS DISTRICT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR                      2008 - 2009

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Wtd.Avg. Plant in Service	6,259.9	7,803.6	1,543.7	24.7%
Material & Supplies	15.1	16.8	1.7	11.3%
Working Cash - Lead-Lag	(5.7)	44.1	49.8	-877.5%
Amt withheld from Employees	(0.4)	(0.4)	0.0	0.0%
Wtd. Avg. Depr. Reserve	(2,370.8)	(2,403.5)	(32.7)	1.4%
Advances	364.3	364.3	0.0	0.0%
Contributions	260.1	260.1	0.0	0.0%
Reserved Amort.Intangibles	0.0	0.0	0.0	0.0%
Deferred Taxes	428.0	428.0	0.0	0.0%
Unamortized ITC	10.5	10.5	0.0	0.0%
General Office Alloc	128.8	128.8	0.0	0.0%
Taxes on - Advances	(23.2)	(23.2)	0.0	0.0%
Taxes on - CIAC	33.1	33.1	0.0	0.0%
Average Rate Base	2,974.0	4,536.4	1,562.4	52.5%
Interest Calculation:				
Avg Rate Base less work cash	2,974.0	4,475.9	1,501.9	50.5%
x Weighted Cost of Debt	2.89%	2.89%	0.00%	0.0%
Interest Expense	85.9	129.4	43.4	50.5%
less Cap. Interest	(13.4)	0.0	13.4	-100.0%
Net Interest Expense	72.6	129.4	56.8	78.2%

1

2

TABLE 9-3

CALIFORNIA WATER SERVICE COMPANY  
WILLOWS DISTRICT

NET-TO-GROSS MULTIPLIER

TEST YEAR 2007 - 2008  
AND ESCALATION YEAR 2008 - 2009

Item	DRA	CWS
1) Uncollectibles %	0.21839%	0.21839%
2) 1-Uncoll (100%-line 1)	99.78161%	99.78161%
3) Franchise tax rate	0.00000%	0.00000%
4) Local Franchise (line 3*line 2)	0.00000%	0.00000%
5) Business license rate	2.00000%	2.00000%
6) Business license (line 5*line 2)	1.99563%	1.99563%
7) Subtotal (line 1+line 4+line 6)	2.21402%	2.21402%
8) 1-Subtotal (100%-line 7)	97.78598%	97.78598%
9) CCFT (line 8 * 8.84%)	8.64428%	8.64428%
10) FIT (line 8 * 35%)	34.22509%	34.22509%
11) Total taxes paid (ln 7+ln 9+ln 10)	45.08339%	45.08339%
12) Net after taxes (1-line 11)	54.91661%	54.91661%

Net-to-Gross Multiplier (1/line 12) =	1.82094 (DRA)
Net-to-Gross Multiplier (1/line 12) =	1.82094 (Utility)

1

## CHAPTER 10: CUSTOMER SERVICE

### A. INTRODUCTION

This chapter presents DRA's analyses and recommendations on customer service.

### B. SUMMARY OF RECOMMENDATIONS

DRA finds the numbers of service complaints low and customer service in this district satisfactory after reviewing CWS' filings and responses to DRA data requests.

### C. DISCUSSION

DRA presents a summary of CWS' customer service complaints received from 2001 through 2006 by type. It also contains the number of complaints as a percentage of the total number of customers in the Willows district.

Table 10-A  
Willows District Customer Service Complaints

<u>Type</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006*</u>
Taste and Odor	8	2	1	1	0	0
Color	0	0	0	0	2	1
Turbidity	1	1	3	0	0	0
Worms/Other Objects	0	0	0	0	0	0
Pressure	0	0	1	1	1	1
Illness-Waterborne	0	0	0	0	0	0
Air	0	0	1	0	0	0
Leaks	0	0	0	0	0	0
Other	0	0	0	0	1	0
<b>Total</b>	9	3	6	2	4	2
No. of Customers	2,282	2,304	2,314	2,317	2,334	2,347
Total as % of Customers	0.39%	0.13%	0.26%	0.09%	0.17%	0.09%

\*Up to October 2006



1 CWS' records indicate that the numbers of service complaints are low  
2 relative to the number of customers in the district.

3 **C. CONCLUSION**

4 DRA recommends that the Commission finds CWS' customer service to be  
5 satisfactory.

## **CHAPTER 11: RATE DESIGN**

### **A. INTRODUCTION**

This Chapter sets forth DRA's analysis and recommendations on rate design for CWS' rate increase application for its Willows District. The present rates for General Metered Service and Residential Flat Rate Service used by CWS in their application became effective on July 22, 2005 and September 9, 2003 for Service to Privately Owned Fire Protection Systems. The proposed rates are those found in CWS' workpapers.

CWS currently provides water service in its Willows District under the following schedules:

WL-1            General Metered Service

WL-2R          Residential Flat Rate Service

WL-4            Service to Privately Owned Fire Protection Systems

### **B. SUMMARY OF RECOMMENDATIONS**

CWS proposes to design rates for General Metered Service to recover 50 percent of the fixed costs through the service charge and the remainder through increasing quantity rates. The method for General Metered Service meets the requirements set forth in Decision D.86-05-064. CWS proposes to use the Service Charge ratios from CWS' 1991 general rate case filings. DRA does not object to these ratios. However, DRA's proposed rates differ from CWS' because of different recommended revenue requirements.

CWS' other rate change request involves implementation of a tiered rate structure (increasing block rates) along with a Water Revenue Adjustment Mechanism (WRAM) and Full Cost Balancing Accounts (FCBA). DRA prepared its analysis of rate design with the understanding that CWS' current GRC would

1 be divided into two phases with the second phase addressing CWS' requests for  
2 increasing block rates, WRAM and FCBA. CWS subsequently submitted a  
3 compliance filing A.06-10-026, requesting the Commission to address these  
4 issues. CWS submitted its compliance filing on October 26, 2006. Consequently,  
5 in this report, DRA addresses rate design from CWS' approved rate design and  
6 defers addressing increasing block rates, WRAM and FCBA to the compliance  
7 filing. Thus, in DRA's analysis of CWS' proposal, DRA continues to assume the  
8 absence of WRAM and FCBA and a rate design that recovers 50 percent of the  
9 fixed costs through the service charge and the remainder through a single quantity  
10 rate.

### 11 **C. DISCUSSION**

12 Concerning Privately Owned Fire Protection Service, CWS proposes to  
13 continue charging for Privately Owned Fire Protection Service according to the  
14 size of the connection. DRA finds this approach reasonable because the proposed  
15 rates are consistent with rates approved for other CWS' districts. DRA's proposed  
16 rates will differ from CWS' because DRA recommends a different revenue  
17 requirement.

### 18 **D. CONCLUSION**

19 As the vast majority of CWS' proposed rate design will be addressed in the  
20 compliance filing, DRA concludes that for this general rate case, it would be  
21 prudent for the Commission to adopt the CWS rate design from its last GRC.  
22 Notwithstanding the deferral of WRAM and FCBA to the compliance filing, the  
23 adopted rates will differ from CWS' because DRA recommends a different  
24 revenue requirement. DRA recommends the Commission adopt rates for CWS  
25 based on DRA's revenue requirement.

## CHAPTER 12: SPECIAL REQUESTS

### A. INTRODUCTION

This chapter presents DRA's analysis and recommendations on the special requests made by CWS for the Willows District.

### B. SUMMARY OF RECOMMENDATIONS

(a) **CWS requests a finding from the Commission that the district provides water service that meets or exceeds state and federal drinking water standards and General Order 103 (Exhibit F, page 2)**

DRA has thoroughly reviewed the latest Department of Health Services (DHS) annual inspection report and the cover letter included in Exhibit F, Testimony of Chet Auckly, Director of Water Quality and Environmental Affairs at CWS. DRA found that CWS has covered the following three important aspects of water quality in detail to show that: 1) Willows District has not exceeded any Maximum Contaminant Level ("MCL") or deviated from accepted water quality procedures since the last general rate case; 2) DHS has not cited this district since the last general rate case; 3) this district has complied with all federal and state drinking water standards.

DRA also contacted DHS in writing directly in early October 2006 asking the responsible agency engineers who have expertise in water quality to review and to indicate any concerns they may have regarding the water quality report for this district as submitted by CWS dated July 2006. DRA did not receive any negative comments from DHS by the end of October 2006.

CWS has made a thorough water quality presentation for this district in this proceeding. CWS has made substantial progress in improving water quality in this district. DRA agrees that CWS has complied with applicable water quality standards in this district during the most recent three-year period.

1 (b) The Water Revenue Adjustment Mechanism request is excluded  
2 from the scope of this proceeding.

3 (c) The offset rate increase to reflect General Office allocation  
4 request is excluded from the scope of this proceeding.

5 (d) **CWS is requesting an early, *ex parte* order to update Rule 15**  
6 **to increase the water supply special facilities fee in this district. (Exhibit E,**  
7 **page 6)**

8 . DRA does not object to the forecasted amounts for Contributions in  
9 Aid of Construction (“CIAC”) or Advances for Construction. However, DRA  
10 recommends an amount per lot fee of \$2,320 for the 11 lots, as forecasted by  
11 CWS. This equates to an amount of \$25,520 for each of the forward looking years  
12 2007 through 2009. Moreover, DRA recommends that the recommended annual  
13 amount of \$25,520 be included in Advances for Construction, which is in accord  
14 with D. 05-12-020. Specifically, D. 05-12-020 states that for Apple Valley  
15 Ranchos Water Company’s Rule 15, the cost of all necessary facilities to serve  
16 new customers, including wells, tanks, and treatment facilities, when clearly  
17 attributable to new customers, should be recovered in the facilities charge, and not  
18 be imposed on the existing customer base.

19 (i) For the Willows District, CWS forecasts growth in the  
20 amount of 11 connections, for a total of \$11,000, which equates to a lot fee of  
21 \$1,000 per lot. CWS forecasts a net decrease to CIAC of \$8,300 for each year of  
22 2007, 2008, and 2009, and a net decrease of \$5,100 for 2007, \$4,900 for 2008, and  
23 \$5,100 for 2009 to Advances to Construction. Included in the above net decreases  
24 for Willows District are increases of \$1,800 for each year of 2007, 2008, and 2009  
25 for Contributions and increases in deposits for Advances of \$9,800 for each year  
26 of 2007, 2008, and 2009. For the record period of 2001 through 2005, CWS  
27 entered into no main extension agreements, constructed no wells, and had no

1 customers served by main extensions. Additionally, for the record period, CWS  
2 recorded net decreases to Contributions and net decreases to Advances for  
3 Constructions. The net decreases are a result of larger depreciation charges than  
4 gross additions for Contributions and greater refunds and transfers to Advances  
5 than booked deposits.

6 (ii) DRA does not object to the above described forecasts  
7 for CIAC or Advances for Construction for the three year forward looking period  
8 2007 through 2009. However, DRA recommends a per lot fee of \$2,320 rather  
9 than \$1,000 as requested by CWS. DRA's recommendation is based on the Selma  
10 District's forecasted cost of approximately \$2,320 on a per customer basis, for the  
11 addition of one new well. DRA is of the opinion that the \$2,320 would be a more  
12 realistic forecast for lot fees. Accordingly, DRA recommends lot fees of \$2,320  
13 for 11 new connections which equates to \$25,520. DRA recommends that the lot  
14 fees of \$25,520 be included in Advances for Construction, to be in accord with  
15 the Apple Valley Ranchos Water Company proceeding in D. 05-12-020.

16 (e) **CWS requests an order allowing them to capitalizing certain**  
17 **well improvements over the life of the well. (Exhibit E, page 8)**

18 CWS made a special request to capitalize well refurbishment. CWS wanted  
19 the Commission to approve an order allowing CWS to record well refurbishment  
20 costs as capital items depreciable over the remaining life of the well. In DRA  
21 Data Request JWS-6, DRA requested information regarding CWS' request to  
22 change its estimating methodology related to well refurbishment. In its response  
23 to DR JWS-6, CWS indicated that they were able to resolve problems at Station 4-  
24 01 in Willows District by installing a down-hole sand separator in lieu of  
25 performing well refurbishment. Additionally, they did not perform well  
26 refurbishment at Station 10 in Willows District. After tests and evaluation, the  
27 utility determined that the water quality at Station 10 was acceptable and no

1 treatment was necessary.<sup>9</sup> Accordingly, because well refurbishment is no longer  
2 necessary, DRA has concluded that CWS will be withdrawing its special request  
3 in this GRC to capitalize well refurbishment costs.

4 **(f) GO Synergy Memorandum Account**

5 CWS requests to amortize the General Office synergies memorandum  
6 account adopted in D. 03-09-021 and the merger savings established in D. 04-04-  
7 041. DRA reviews and agrees with CWS' request to amortize \$60,370 booked in  
8 the GO synergy memorandum account.

9 **(g) CWS requests to amortize its purchased power balancing**  
10 **account in compliance with ordering paragraph 3 of D. 06-04-037**

11 As of June 30, 2006, the balancing account included in CWS' Exhibit I  
12 shows an over collection of \$12,327 or 1.15% of the annual revenue. DRA  
13 reviewed and agreed that the balancing account should be amortized.

14 Ordering paragraph 3 of D. 06-04-037 states that, "Class A water utilities  
15 shall report on the status of their balancing accounts in their general rate cases and  
16 shall propose adjustments to their rates in that context to amortize under-or over-  
17 collections in those accounts subject to a reasonableness review. They also may  
18 propose such rate adjustments by advice letter at any time that the under-or over-  
19 collection in any such account exceeds two percent (2%) of annual revenues for  
20 the utility or a ratemaking district of the utility." CWS' request to amortize its  
21 purchased power balancing account is in compliance with ordering paragraph 3 of  
22 D. 06-04-037.

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<sup>9</sup> CWS response to DRA Data Request JWS-6, dated October 31, 2006.

## **CHAPTER 13: STEP RATE INCREASE**

### **A. FIRST ESCALATION YEAR**

On or after November 5, 2007, CWS should be authorized to file an advice letter, with appropriate supporting workpapers, requesting the step rate increase for 2008 authorized by the Commission, or to file a lesser increase in the event that the rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 2007, exceeds the lesser of (a) the rate of return found reasonable by the Commission for CWS for the corresponding period in the most recent rate decision, or (b) the rate of return found reasonable in this case. This filing should comply with General Order 96-A. The requested step rates should be reviewed by the Commission's Water Division (Division) to determine their conformity with this order, and should go into effect upon the Division's determination of compliance. The Division should inform the Commission if it finds that the proposed rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised tariff schedule should be no earlier than 30 days after filing. The revised schedules should apply to service rendered on and after their effective date. Should a rate decrease be in order, the rates should become effective on the filing date.

### **B. SECOND ESCALATION YEAR**

For the second year an attrition adjustment should be granted for the revenue requirement increases attributable for the expense increases due to inflation and rate base increases that are not offset by the increases in revenues, with the revenue change to be calculated by multiplying forecasted inflation rate by DRA and operational attrition plus financial attrition times adopted rate base in 2008 times the net-to-gross multiplier.



## C. ESCALATION YEARS INCREASES

The table below shows the Summaries of Earnings for Escalation Years 2008-2009 and 2009-2010. To obtain the increases in these years, D. 04-06-018 requires water utilities to file an Advice Letter 45 days prior to the start of the year showing all calculations supporting their requested increases.

The revenues shown in Table 13-1 are for illustration purposes and the actual increases would be authorized only after approval of the utility's advice letter.

TABLE 13-1

### SUMMARY OF EARNINGS

#### CALIFORNIA WATER SERVICE COMPANY WILLOWS DISTRICT

	DRA 2008-09	DRA 2009-010	% increase	
Item	(Thousands of \$)			
Operating revenues	1,297.0	1,397.2	7.7%	Esc. Factor
Operation & Maintenance	430.4	437.7	1.7%	1.017
Administrative & General	58.7	59.8	1.8%	1.018
G.O. Prorated Expense	231.4	235.3	1.7%	1.017
Depreciation & Amortization	139.0	141.4	1.7%	1.017
Taxes other than income	64.7	65.8	1.7%	1.017
State Corp. Franchise Tax	18.9	26.4	39.4%	
Federal Income Tax	107.2	136.7	27.6%	
Total operating expenses	1,050.3	1,103.0	5.0%	
Net operating revenue	246.7	294.2	19.2%	
Rate base	2,974.0	3,544.2	19.2%	
Return on rate base	8.30%	8.30%	0.0%	

**APPENDIX A**

**QUALIFICATIONS AND PREPARED TESTIMONY**

**QUALIFICATIONS AND PREPARED TESTIMONY  
OF  
YOKE W. CHAN**

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Yoke W. Chan and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Senior Utilities Engineer in the Water Branch of the Office of Ratepayer Advocates.

Q2. Please summarize your education background.

A2. I graduated from the University of California at Los Angeles, with a Bachelor of Science Degree in Civil Engineering. I am a registered civil engineer in the State of California.

Q3. Briefly describe your educational background and professional experience.

A3. I have been employed by the Commission for many years and have testified and worked on many general rate case proceedings, offset rate cases, transfer and compliance matters of large water utilities. I have also worked on ECAC proceedings for the energy utilities.

Q4. What is your responsibility in this proceeding?

A4. I am the Project Manager for this proceeding and responsible for Chapters 1 and 13 of DRA's Reports on the Results of Operations for Bakersfield, Dixon, King City, Oroville, Selma, South San Francisco, Westlake and Willows districts.

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY  
OF  
TONI CANOVA**

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Toni Canova and my business address is 505 Van Ness Avenue, San Francisco, California. I am in the Water Branch of the Division of Ratepayer Advocates as a Public Utility Regulatory Analyst IV.

Q2. Please summarize your education background and professional experience.

A2. I graduated from The Evergreen State College in Olympia, Washington, with a Bachelor of Arts Degree in Environmental Studies. I have been employed by the Commission for three years. Previously, I was employed by the Department of Ecology's Water Quality Program for the State of Washington.

Q3. What is your responsibility in this proceeding?

A3. I am responsible for Result of Operation tables for Bakersfield, King City, and Selma Districts, Chapter 2 testimony, Water Consumption and Operating Revenues, for all eight districts, and the Selma district Special Request (F) for Phase-in revenue requirement.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY  
OF  
VIBERT GREENE**

Q.1. Please state your name and address.

A.1. My name is Vibert Greene. My business address is 505 Van Ness Avenue, San Francisco, California.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission as a Utilities Engineer in the Division of Ratepayer Advocates Water Branch.

Q.3. Please briefly describe your educational background and work experiences.

A.3. I have a: Ph D in research in Pressure Driven Ultra-filtration and Master of Engineering at the University of California, Berkeley; Masters of Science in Engineering from San Jose University; Bachelor of Science in Mechanical Engineering and Bachelor of Arts in Mathematics from the University of Hawaii, Honolulu. I also completed Management training at Leigh University. I attended both the NARUC Western Utility Rate School Seminar in the basics of utility ratemaking for regulated entities and the National Regulatory Research Institute Seminar on Public Utility Regulation in the 21st Century.

After graduation from Berkeley, I joined the California Public Utilities Commission. I am presently employed as a Utilities Engineer in the Ratepayer Representation Branch of the Water Division dealing with class A Water Utilities. Since joining the Commission in 1998 as a Utilities Engineer, I have worked on several Class A, B and C Water Utilities' Rate Cases. My duties and responsibilities covered all aspect of a Rate Case including but not limited to: Rate Design, Rate Base, Operation and Maintenance Expenses, Taxes-General, Administration and General Office Expenses, Depreciation, Revenues and Utility Plant in Service. In addition, I have worked on several formal proceedings including evaluation studies and other investigations initiated by the Commission. My duties and responsibilities also require participation in Public Hearings, giving expert testimony before the Commission, conducting Field Audits of Utilities Plant and writing Reports.

Prior to joining the Commission, I worked in the private sector for 20 plus years. My work experiences included several years in Design Engineering, Process Engineering, Research and Development, Program Management and Project management. I have managed several special projects; including several years Project Management experience--managing projects for an International Consortium which consisted of Companies from Japan, Italy and France. Five years Program Management as the Test Director for a National Consortium which consisted of five-agencies located in three States. I am also a part-time Mathematics instructor at the Evergreen College in San Jose, and hold two mechanical device patents.

Q.4. What is your area of responsibility in this proceeding?

A.4. In the Results of Operations I am responsible for a preparing Chapter 3—Operation and Maintenance, and Chapter 6—Income Taxes.

Q.5. Does that complete your prepared testimony?

A.5. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY  
OF  
CLEASON D. WILLIS**

Q.1. Please state your name and business address.

A.1. My name is Cleason D. Willis. My business address is 505 Van Ness Avenue, San Francisco, California, 94102.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission as a Regulatory Analyst.

Q.3. Please briefly describe your educational background and work experience.

A.3. I graduated from the California State University of Hayward with a Bachelor of Science Degree in Business Administration and Finance, and a Master of Science Degree in Public Administration and Management. After graduation I joined the California Public Utilities Commission. Since that time I have performed economic, and reasonableness analysis for various Electrical, Gas, Water, and Telecommunications operations. I have written reports, and testified regarding the validity of my findings and recommendations concerning my analysis for various utility proceedings.

Q.4. What is your area of responsibility in this proceeding?

A.4. I am responsible for the Administration and General Expenses, and Taxes Other Than Income chapters for the California Water Service Company General Rate Case.

**QUALIFICATIONS AND PREPARED TESTIMONY  
OF  
JOYCE W. STEINGASS, P.E**

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Joyce W. Steingass. My business address is 505 Van Ness Avenue, San Francisco, California. My job title is Utilities Engineer and I work in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background and professional experience.

A2. I am a graduate of the University of California, Berkeley, with a Bachelor of Science in Mechanical Engineering. I am a licensed professional Mechanical Engineer in the State of California. I have been employed by the California Public Utilities Commission since 2005. My current assignment is within the Division of Ratepayer Advocates where I work on Class A General Rate Cases. Prior to joining CPUC, I was a management consultant at Barrington-Wellesley Group, performing investigations of energy companies for regulatory Commissions in other states. Before that I was a utility consultant for Navigant Consulting. Earlier in my career, I was employed by Pacific Gas and Electric Company for seventeen years where my most recent position was the Director of Distribution Quality Assurance, in charge of audits related to gas and electric distribution operations. During my career with PG&E, I was the Pipeline Replacement Superintendent for PG&E's San Francisco Division for three years. That project entailed overseeing the replacement of cast iron and pre-1930s steel natural gas distribution pipelines.

Q3. What is your responsibility in this proceeding?

A3. I am the witness responsible for Utility Plant in Service and Depreciation Expenses and Reserve. I prepared the following chapters of DRA's report:

- Chapter 7 – Plant in Service for Dixon, Oroville and Willows Districts
- Chapter 8 – Depreciation Expenses and Reserve
- Chapter 9 – Rate Base and Net to Gross Multiplier;
- Chapter 12 – Special Requests related to Water Quality in Dixon, Oroville and Willows Districts and Well Refurbishment in King City and Willows Districts.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY  
OF  
KATIE LIU**

Q.1. Please state your name and business address.

A.1. My name is Katie Liu. My business address is 505 Van Ness Avenue, San Francisco, California.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission - DRA Water Branch – as a Public Utilities Regulatory Analyst.

Q.3. Please briefly describe your educational background and work experience.

A.3. I am a graduate of the University of California, Los Angeles with a Bachelor's degree in Economics. I have been employed by the California Public Utilities Commission since 2006. My current assignment is within DRA – Water where I work on Class A General Rate Cases.

Q.4. What are your responsibilities in this proceeding?

A.4. I am responsible for DRA's Water Branch Report On Customer Service For California Water Service Company in this proceeding.

Q.5. Does this conclude your prepared testimony?

A.5. Yes.



**QUALIFICATIONS AND PREPARED TESTIMONY  
OF  
TATIANA OLEA**

Q. Please state your name and business address.

A. My name is Tatiana Olea. My business address is 505 Van Ness Avenue, San Francisco, California 94102.

Q. By whom, and in what capacity are you employed?

A. I am employed by the Public Utilities Commission of California (CPUC) as a Public Utilities Regulatory Analyst (PURA) IV in the Division of Ratepayer Advocates, Water Branch.

Q. Please summarize your educational background and work experience.

A. In 1998, I completed a graduate program at Syracuse University where I received a master in Public Administration with a concentration in Public Finance from the Maxwell School. My undergraduate degree is in Anthropology and Sociology from Saint Mary's College in Moraga, California. After completing graduate school, I joined the government practice of PriceWaterhouse (now PriceWaterhouseCoopers) and later worked as an analyst for the Federal Reserve Bank of San Francisco. After the Federal Reserve, I returned to consulting with Bartle Wells Associates of Berkeley, CA., where I specialized in water and sewer rate design and revenue bond financing. Since leaving the Federal Reserve in 2001, I have worked on consulting assignments with public agencies, engineers, and other professionals to evaluate financing alternatives for public projects.

My experience includes extensive rate design and financing work for municipal water and sewer utilities. I have developed water, sewer, and recycled water rate structures including designing tiered rate structures. I prepared long-range financial plans for utilities and prepared preliminary official statements and related documents for municipal bond sales. Last year, I served as Senior Analyst in two utility revenue bond financings totaling over \$115 million. I have also developed and implemented development impact fees and user charges.

In municipal rate design cases, I served as expert witness and testified in front of governing bodies during public hearings approximately 20 times.

I joined the staff of the CPUC in September of this year. My current assignments include rate cases, evaluation of tiered rates and analyzing the impact of decoupling (WRAM). I am project lead for the current California Water Services Company compliance filing and I am sponsoring rate design testimony in the CalAm GRC.

Q. What is the purpose of your testimony today?

A. I am sponsoring Chapter 11, Rate Design, of the DRA's Report on CWS' GRC.

Q. Does that complete your prepared direct testimony in this proceeding?

A. Yes, at this time.

**QUALIFICATIONS AND PREPARED TESTIMONY  
OF  
PAMELA T. THOMPSON**

Q.1 Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A.1 My name is Pamela T Thompson and my business address is 505 Van Ness Avenue, San Francisco, CA. I am a Financial Examiner IV in the Water Branch of the Division of Ratepayer Advocates.

Q.2 Please summarize your educational background.

A.2 I received a Bachelor of Arts degree in Mathematics and Spanish Literature from Dominican University in San Rafael in May 1974 and a Masters of Business Administration degree in Accounting from Golden Gate University in June 1978. I am also a licensed Certified Public Accountant in the State of California.

Q.3 Please summarize your business experience.

A.3 I graduated from Dominican College with a Bachelor of Arts degree in Mathematics and Spanish Literature in 1974. I subsequently graduated in June 1978 from Golden Gate University with a Master of Business Administration degree in Accounting. I am a licensed Certified Public Accountant in the State of California. I joined the staff of the California Public Utilities Commission in August 1976. In my capacity as a Financial Examiner, I have examined the financial records of various utilities under the jurisdiction of the Commission, including gas, electric, and water utilities. I have testified numerous times before the Commission.

Q.4 What is your responsibility in this proceeding?

A.4 I am responsible for portion of Chapter 12 for the King City, Willows, Oroville and Dixon districts respectively, in the areas of Contributions, Advances and Lot Fees in this proceeding.

Q.5 Does this conclude your prepared direct testimony?

A.5 Yes, it does.

